GLASS LEWIS

Client Policy Survey 2023

Results & Key Findings

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About Glass Lewis

Glass Lewis is the world's choice for corporate governance solutions. We enable institutional investors and publicly listed companies to make informed decisions based on research and data. We cover 30,000+ meetings each year, across approximately 100 global markets. Our team has been providing in-depth analysis of companies' corporate governance policies, practices and performance since 2003.

Our customers include the majority of the world's largest pension plans, mutual funds, and asset managers, collectively managing over $40 trillion in assets. We also help companies understand corporate governance best practices and how investors view them. We have teams located across the United States, Europe, and Asia-Pacific giving us global reach with a local perspective on the important governance issues.

Investors around the world rely on Glass Lewis to inform their proxy voting policies and to support them in executing on their proxy voting responsibilities.

Join the Conversation

Glass Lewis is committed to ongoing engagement with all market participants.

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Introduction

This document provides an overview of Glass Lewis' inaugural Client Policy Survey, conducted in August and September 2023 to inform our annual "benchmark" policy guideline updates.

In developing and updating our market-specific benchmark policies, we consider a diverse range of perspectives and inputs, with ongoing analysis of regulatory developments, academic research and evolving market practices as a starting point. We incorporate insights gained from discussions with institutional investors, trade groups and other market participants, as well as meetings of the Glass Lewis Research Advisory Council. Further, our corporate issuer engagement program helps to shape our guidelines by adding essential market- and industry-specific context.

This year, we have augmented our policy review process by offering all Glass Lewis institutional investor clients, as well as corporate and other subscribers to our research, the opportunity to weigh in on various corporate governance matters. The goal of this survey was to formalize our existing processes for incorporating client and market perspectives. It is not exhaustive, but focuses on policy areas where we have recently observed new practices or where our previous discussions and engagements with investors, corporate issuers and other stakeholders have not yielded a clear consensus.

We are pleased that in its first year, the Glass Lewis Client Policy Survey generated strong interest from a range of market participants, with over 500 total responses. We are deeply grateful to all respondents who took the time to share their views. Thank you. We encourage any interested parties to contact us if they have questions or feedback.

Glass Lewis Benchmark Policy Updates

Glass Lewis' benchmark policy guidelines form the basis of our analysis and voting recommendations for companies traded in each applicable geographic region. They are available to clients on our Viewpoint and Governance Hub platforms, and publicly on our website.

The benchmark policy guidelines generally reflect the current, predominant views of institutional investor clients on corporate governance best practices and incorporate the evaluation of material environmental and social issues through the lens of long-term shareholder value. In conducting our analysis, we also review each company and proposal on a case-by-case basis, considering the company's performance, industry, stock exchange, place of incorporation and other factors.

Glass Lewis evaluates the benchmark policy guidelines on an ongoing basis. We update them annually, and when material changes to regulation or market practice occur during the year. For markets that conduct their "proxy season" in the first half of the calendar year, annual policy updates are published in November and December, taking effect at the start of the next calendar year. For markets that hold their proxy season later in the calendar year (Australia, India, New Zealand and South Africa), annual policy updates are published one-to-two months ahead of the season.

Beyond the Benchmark

It is important to note that the Glass Lewis benchmark policy is just one voting option Glass Lewis clients can choose, either to adopt as their own or to use as a starting point for the creation of their own custom policy.

Glass Lewis serves a global client base with a broad range of views on corporate governance issues. In fact, our clients' varied perspectives of governance best practices are illustrated throughout the survey results that follow. For this reason, Glass Lewis offers its clients a menu of other "thematic" policy options, which are distinct from the benchmark policy, and which reflect different perspectives on investment and share ownership strategies.

For more information on our thematic voting policy options or to inquire about implementing your own custom policy, please contact us.

Methodology & Demographics

Our Client Policy Survey was open to all Glass Lewis institutional investor clients, as well as corporate and other subscribers to our research, from Friday August 18 to Friday September 15, 2023. In total, we received 140 responses from institutional investors (including asset managers and asset owners) and 417 responses from non-investors (including corporate issuers, corporate advisors, shareholder advocates and other stakeholders).

Types of Respondents

Investors	Asset Managers	99
	Asset Owners	41
	Sub-Total	*140*
Non-Investors	Corporate Issuer	377
	Corporate Advisor	24
	Other	16
	Sub-Total	*417*
	Total	***557***

Investor Assets Under Management

Region	Number of Respondents
Over $100 billion	40
$10 billion to $100 billion	52
$1 billion to $10 billion	37
$500 million to $1 billion	5
$100 million to $500 million	4
Under $100 million	2

Principal Location of Organization

Region	Investors	Non-Investors
United States	55.0%	43.4%
Europe	15.7%	21.6%
Canada	8.6%	7.2%
United Kingdom	8.6%	7.4%
Oceania	7.9%	3.4%
Asia	3.6%	13.2%
Central/South America	-	1.0%
Middle East/Africa	-	1.0%
Other	0.7%	1.9%

Investor Holdings by Region

Reflects regions where investor respondents have material holdings, on a "select all that apply" basis.

Region	Number of Respondents
United States	128
Europe	95
Asia	83
United Kingdom	80
Canada	69
Oceania	51
Central/South America	43
Middle East/Africa	37

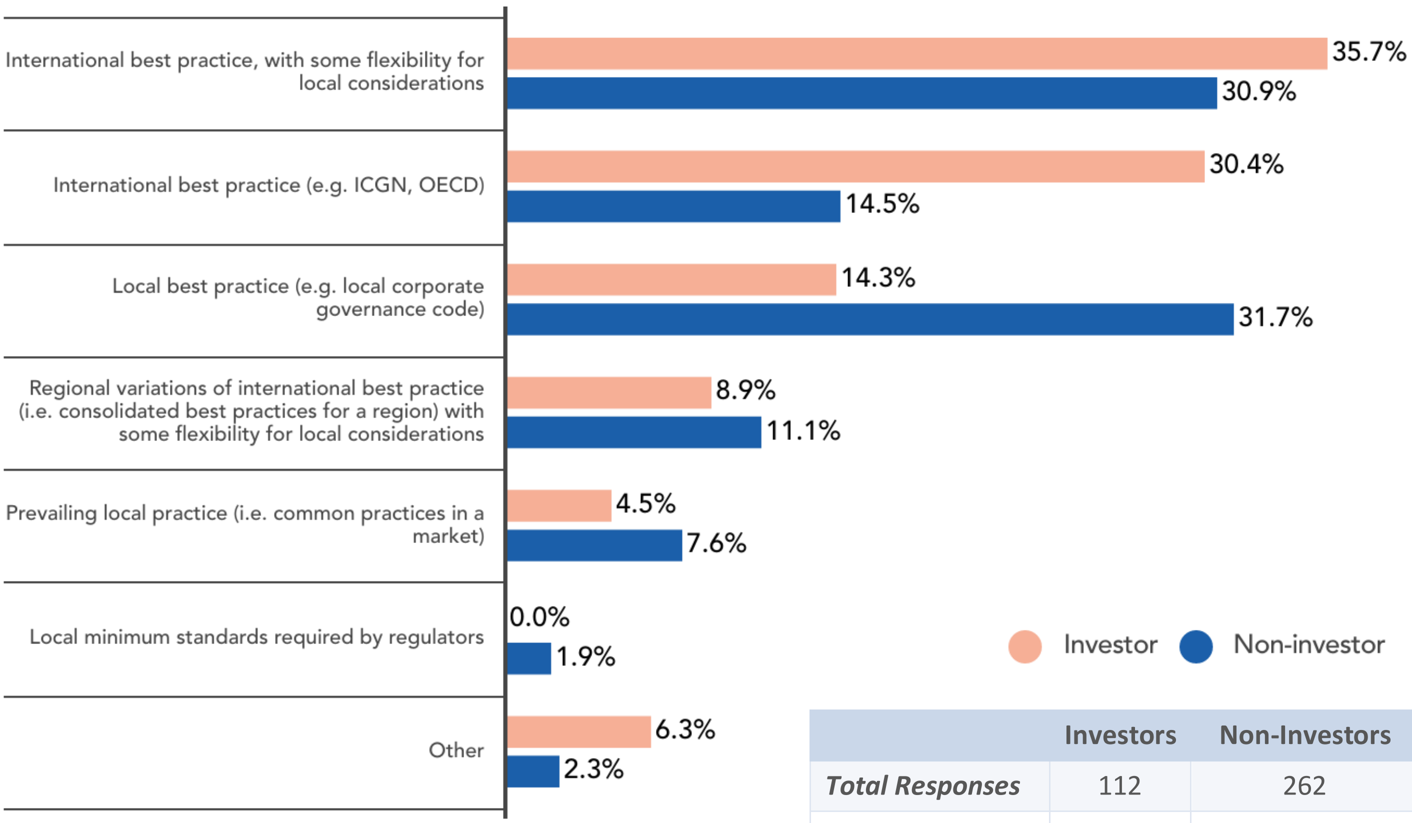
Results & Findings

The results presented in this report are calculated as a percentage of valid responses for that question, or, for choices allowing multiple selections, as a percentage of valid responses for that selection. This calculation excludes respondents who did not answer the question, as well as respondents who expressed "No opinion" on the question. Investor and non-investor responses are calculated separately. Percentages have been rounded.

Approach to International Companies

Before asking their views on specific policies and topics, we wanted to better understand our clients' approach to assessing corporate governance. In particular, given the variety of distinct local market best practices, we were curious about what standards they applied to international companies. Just over a third of investors responded that they assess international companies' corporate governance against "International best practice, with some flexibility for local considerations", and just under a third do the same but without the local flexibility. Amongst non-investors, the most common response was "Local best practice (e.g. local corporate governance code)", making up 31.7% of total.

When considering the corporate governance practices of an international company, which of the following best describes the standards to which you generally hold a company and its board?



	Investors	Non-Investors
Total Responses	112	262
Total Comments	19	23

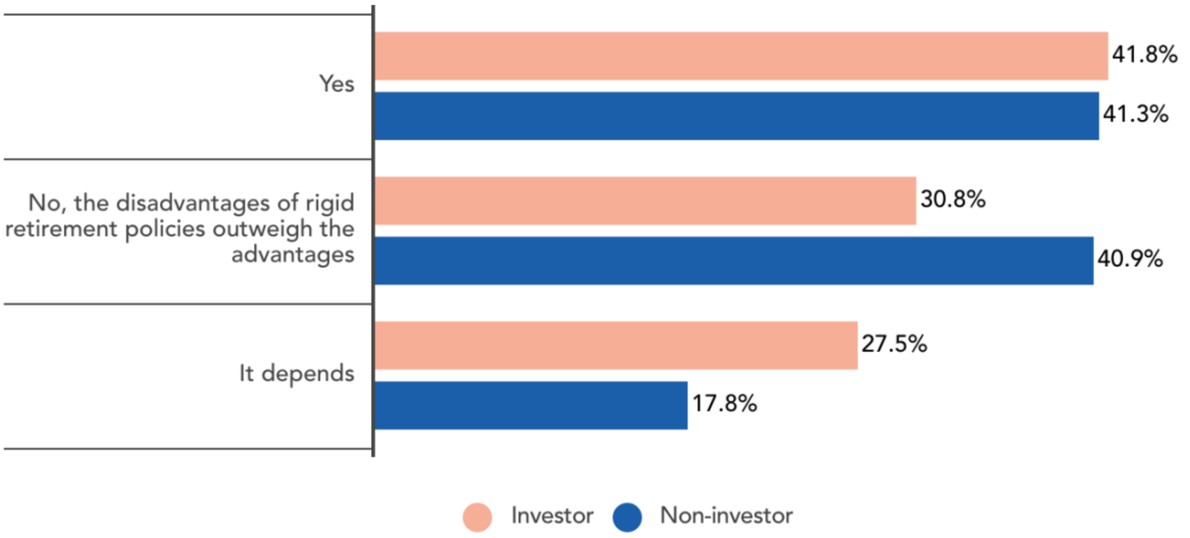
Board of Directors

Mandatory Retirement Policies

Periodic board refreshment can help to foster the sharing of diverse perspectives in the boardroom and the generation of new ideas and business strategies. We wanted to gauge our clients' views on the use of mandatory retirement policies as a means of ensuring board refreshment.

While approximately the same proportion of investors and non-investors view mandatory retirement policies as reasonable (41.8% and 41.3%, respectively), non-investors were more likely to reject them outright due to their rigidity (40.9% vs 30.8%), whereas investors were more likely to take a case-by-case approach (27.5% vs 17.8%). Many investors indicated that the average board tenure and other board refreshment measures, as well as company performance, are important in their approaches. Notably, several investors indicated a preference for mandatory term-limit policies over age-based retirement policies.

Many companies employ a mandatory retirement policy, based on age and/or term limits, to ensure ongoing board refreshment. In your opinion, are mandatory retirement policies a reasonable method to promote board refreshment?

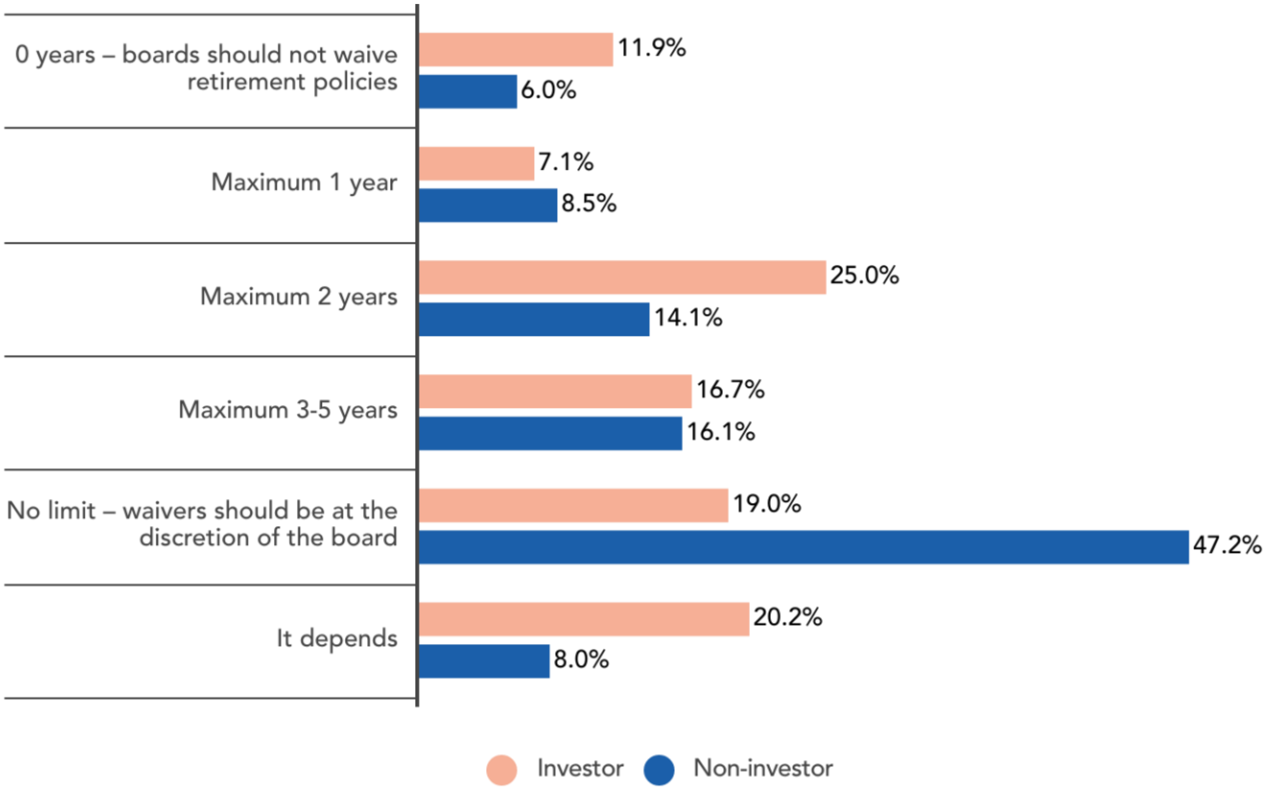


	Investors	Non-Investors
Total Responses	70	225
Total Comments	37	60

Of course, many mandatory retirement policies are not entirely rigid, as they can often be waived by the board. With this in mind, we asked how long such waivers should be used to permit directors to continue serving on the board (see over).

Investors were fairly evenly split between the options, with two years the most common response (25.0%, vs 14.1% amongst non-investors), aligning with Glass Lewis' benchmark policy; whereas non-investors showed a strong preference for maintaining board discretion, with nearly half opting for no limit (47.2%, vs 19.0% amongst investors).

If companies maintain age/term limit retirement policies that can be waived in some circumstances, for how long should a board be able to waive their policy for the same director?



	Investors	Non-Investors
Total Responses	84	199
Total Comments	29	37

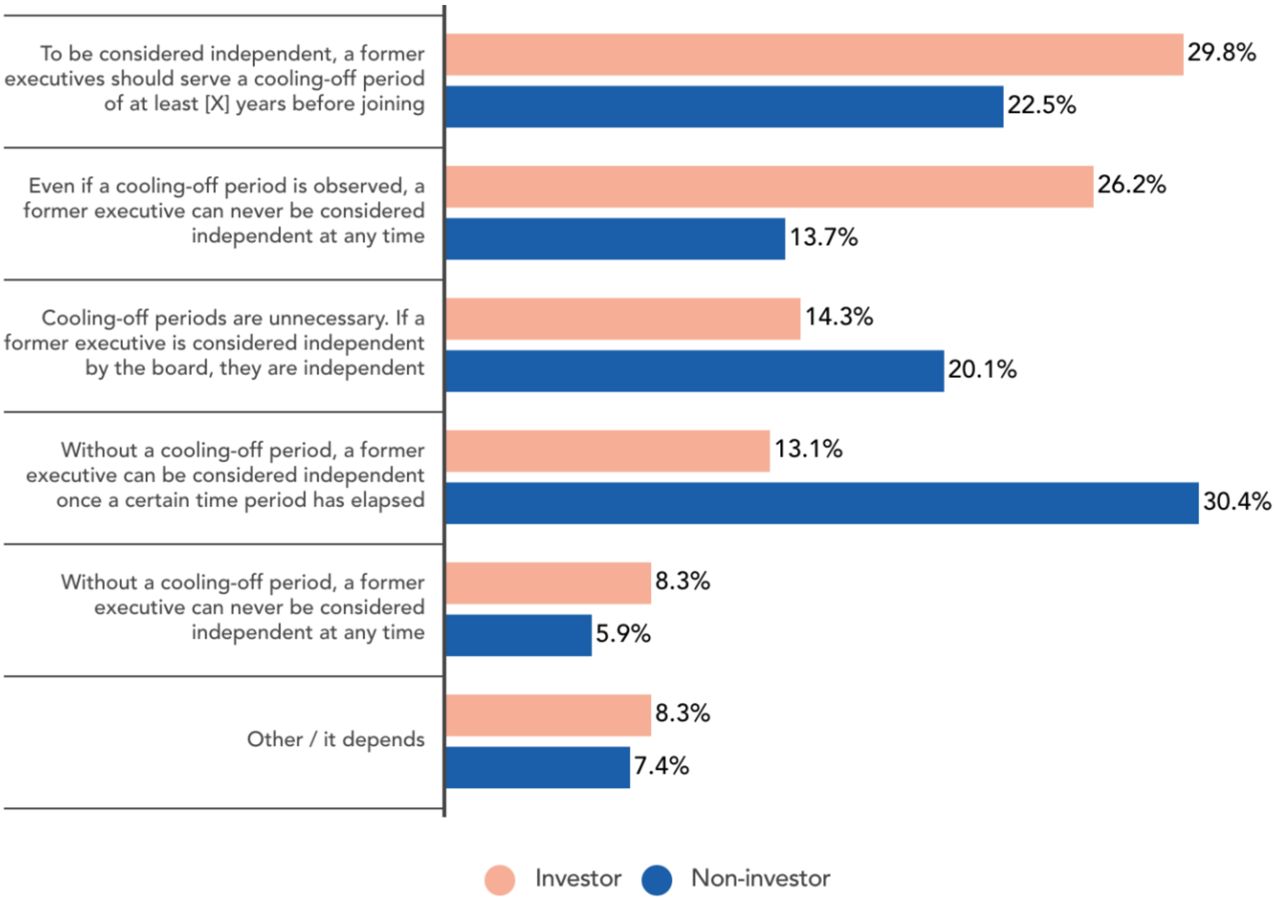
Former Executive Independence

It remains common for former executives to move into a non-executive role on the board -- in some cases directly, and in some cases after a "cooling-off period" has elapsed. When we asked clients about their approach to assessing the independence of former executives turned non-executives, more than half of non-investors did not believe a cooling-off period was necessary (50.5%, compared to 27.4% of investors). Among respondents who felt a cooling-off period was necessary, most suggested it should extend for 3-5 years, with several noting that this aligns with the typical length of a business plan (and one suggesting three years, since that is the length of most equity incentive grants). Many respondents used local market/exchange requirements or practices as the basis for their answer. Investors were nearly twice as likely to see former executives as non-independent regardless of any cooling-off period or time elapsed (26.2% vs 13.7% of non-investors).

While not many non-investors responded that “It depends” (7.4%, vs 8.3% amongst investors), those who did were specific about the considerations they see as relevant. For example:

- *“If the former executive becomes a board member as a result of an acquisition, time period should be shorter than if not an acquisition situation.”*
- *“It depends on the person's experience and degree of influence over management.”*
- *“How long did they serve? Did they leave the board to join management to help with a transition[?]”*

How do you view cooling-off periods when considering the independence of a former executive turned non-executive director?

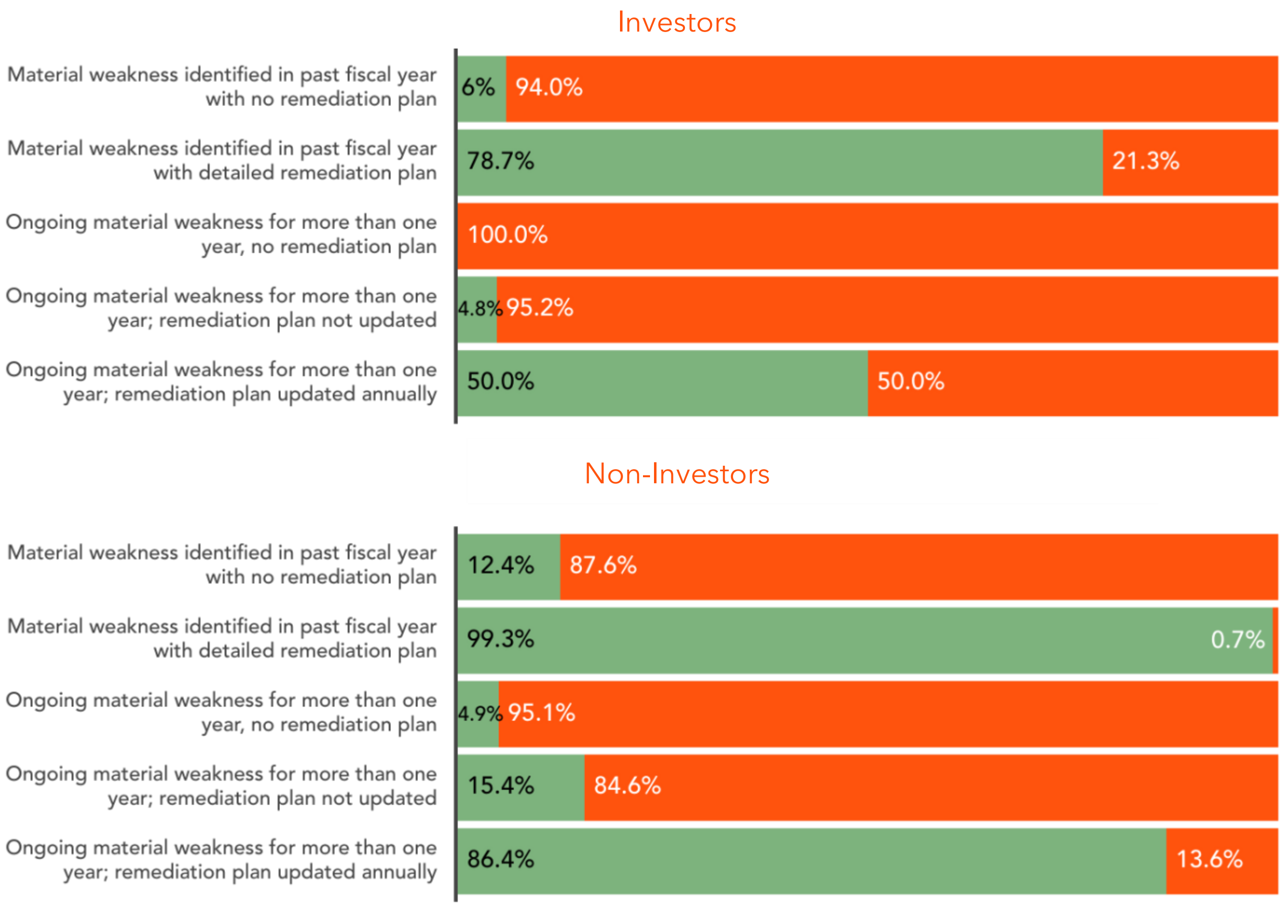


	Investors	Non-Investors
Total Responses	84	204
Total Comments	27	61

Audit Committees and Material Weakness

The remit of the audit committee has expanded in recent years, but its core function remains oversight of financial reporting and internal controls. We were interested in how our clients viewed the audit committee's accountability for managing a company's response when a material weakness has been identified, and asked whether committee members should face adverse voting recommendations in several scenarios. If a material weakness was identified in the past year, 78.7% of investors indicated that they would not make adverse voting decisions for audit committee members on this basis if a detailed remediation plan was disclosed. As expected, investors took a stricter line for ongoing material weaknesses, with half answering that they would vote against if the material weakness was ongoing for more than a year, even if a remediation plan was being updated (50%, vs 13.6% of non-investors – this represented the largest divergence between the two groups). Where no remediation plan was in place, or had not been updated, responses were clearly aligned (96.4% against among investors vs 89.1% amongst non-investors).

When a company has disclosed a material weakness in internal controls, would you typically vote AGAINST audit committee members in any of the following circumstances?



	Investors	Non-Investors
Total Responses	79	137
Total Comments	16	31

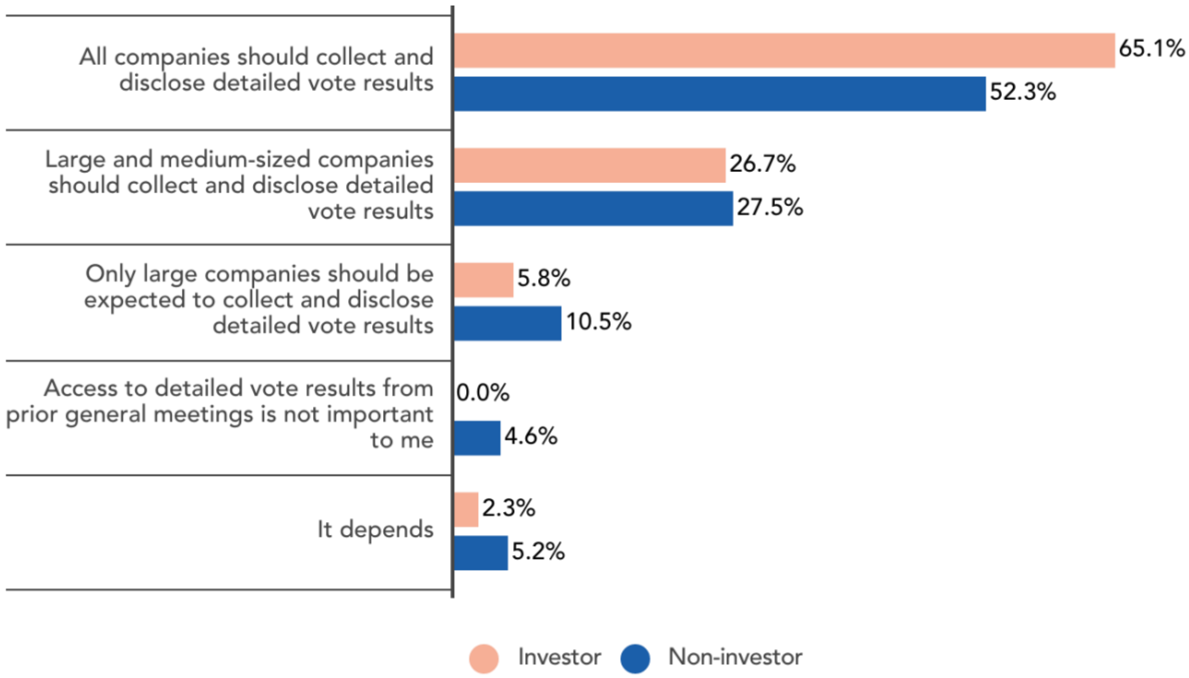
Vote Result Disclosure

While vote result disclosure is mandatory in many countries and has also become common market practice in other countries where disclosure is currently voluntary, access to detailed vote results is not universal, and we wanted to better understand our clients' expectations for disclosure. Views were relatively aligned between investors and non-investors, with a majority of both groups responding that "All companies should collect and disclose detailed vote results" (65.1% of investors vs 52.3% of non-investors). Non-investors were more likely to exempt medium and small companies from this obligation (10.5% vs 5.8%). Notably, whereas 4.6% of non-investors stated that access to detailed vote results was "not important" to them, no investors chose this option.

Respondents from both groups noted that in some cases there are hurdles:

- *"It depends on what the logistical challenges are that prevent structuring to allow proper collection."*
- *"Sympathetic of jurisdictions where the infrastructure may not allow for vote result disclosures even though it is a requirement."*
- *"In the Finnish market it is currently very hard to publish a full voting result, since usually in physical AGM no full votes are carried out. If virtual meetings would be held, results would be published."*

Where vote result reporting is not mandatory or an established best practice, what is your expectation for disclosure?



	Investors	Non-Investors
Total Responses	86	153
Total Comments	12	26

Plurality Voting

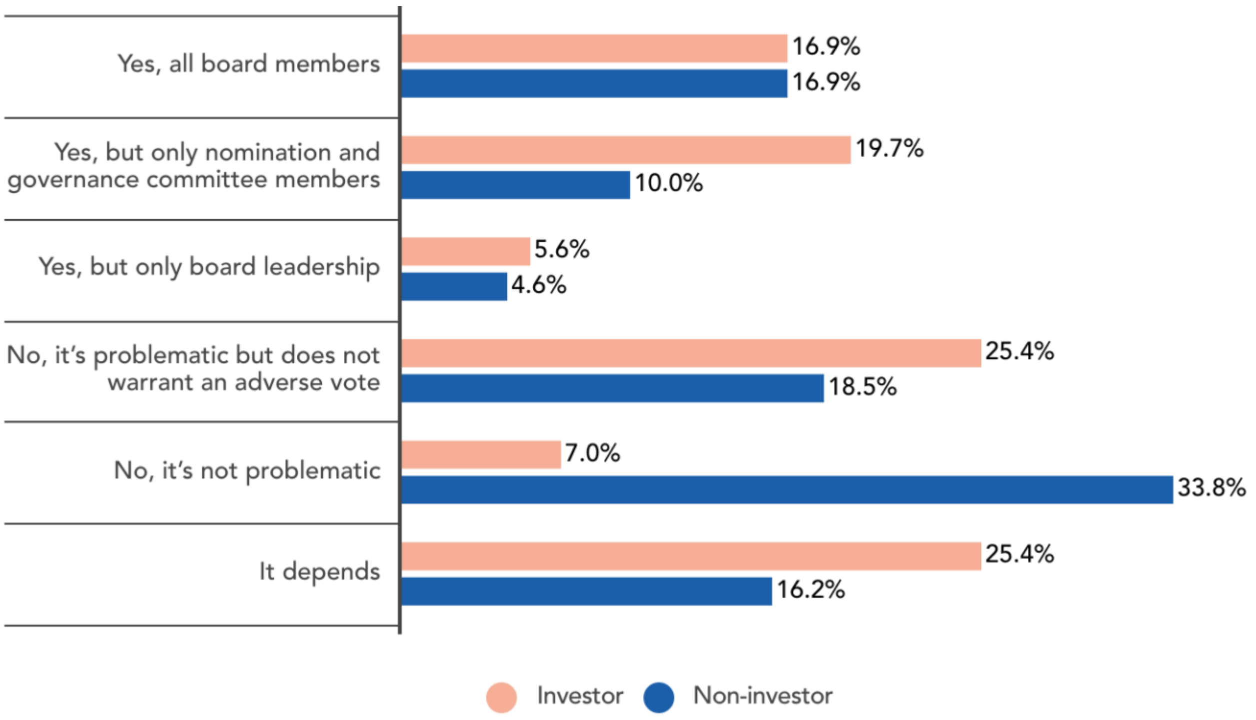
Many U.S. companies still employee a plurality vote standard for director elections – meaning that in uncontested elections, directors effectively cannot fail to be elected.

When asked if boards that use plurality voting should be subject to adverse vote recommendations, the most popular response among investors was "Yes", with 42.2% indicating at least one adverse recommendation for directors would be warranted. However, investors were split on which board members exactly to hold accountable, with 19.7% answering "Yes, but only a nomination and governance committee member"; 16.9% answering "Yes, for all board members"; and 5.6% answering "Yes, but only board leadership".

A quarter of investors agreed the practice was problematic but didn't think it warranted an adverse vote, and another quarter responded that "It depends."

The most popular response among non-investors was that they did not consider the practice to be problematic (33.8%, vs 7.0% amongst investors).

In your opinion, should boards that use the plurality method for uncontested elections be subject to adverse recommendations?



	Investors	Non-Investors
Total Responses	71	130
Total Comments	15	22

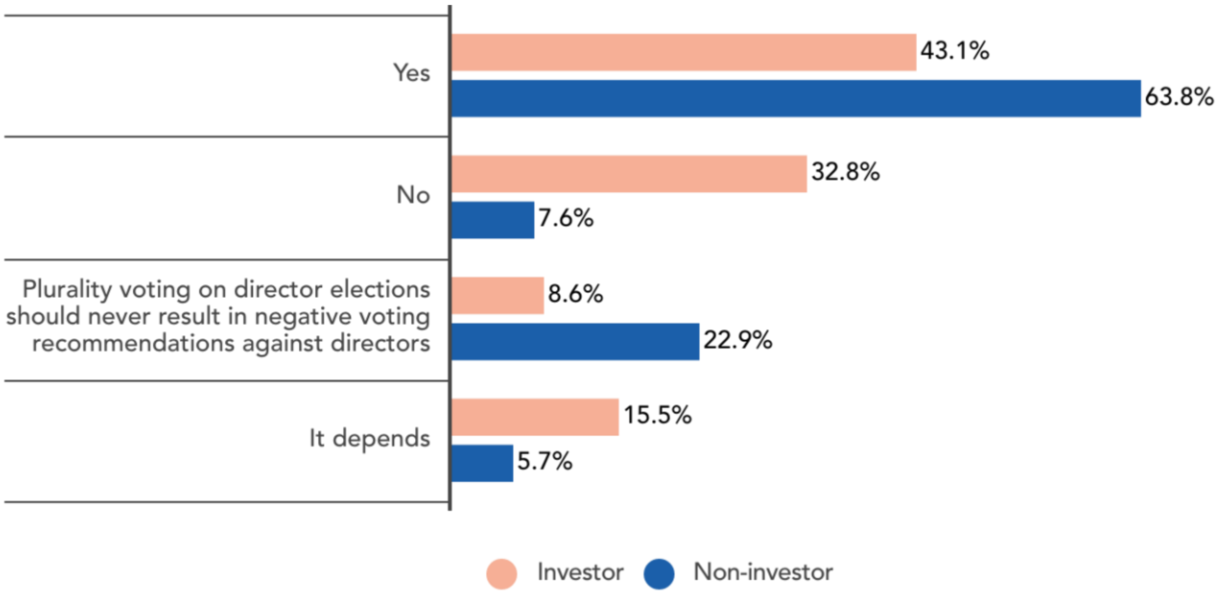
We also asked whether the use of majority resignation policies mitigated concerns about plurality voting. While the most popular response from both groups was "Yes", this option represented a much larger proportion of non-investors (63.8%) than investors (43.1%).

The other options saw a pronounced split between the groups. In particular, nearly a third of investors answered "No" (32.8%, compared to 7.6% of non-investors).

Many investors, including several who responded "Yes", went on the qualify their answer by noting that overuse of boards' discretion to reject resignations undermined the efficacy of these policies:

- *"we have concerns with overreliance on resignation policies given resignations are typically thrown out by the board."*
- *"[We have] historically seen the majority resignation policy as mitigating our concerns, but we are concerned with the ongoing presence of directors who did not receive majority support but were given a waiver by the board. We vote against nominating committee members when such a director is allowed to stay on the board unless a compelling reason is provided."*
- *"when boards reject the resignation they should be really punished at next AGM - like withhold on entire board"*

If you consider plurality voting problematic, are your concerns mitigated by a majority resignation policy?

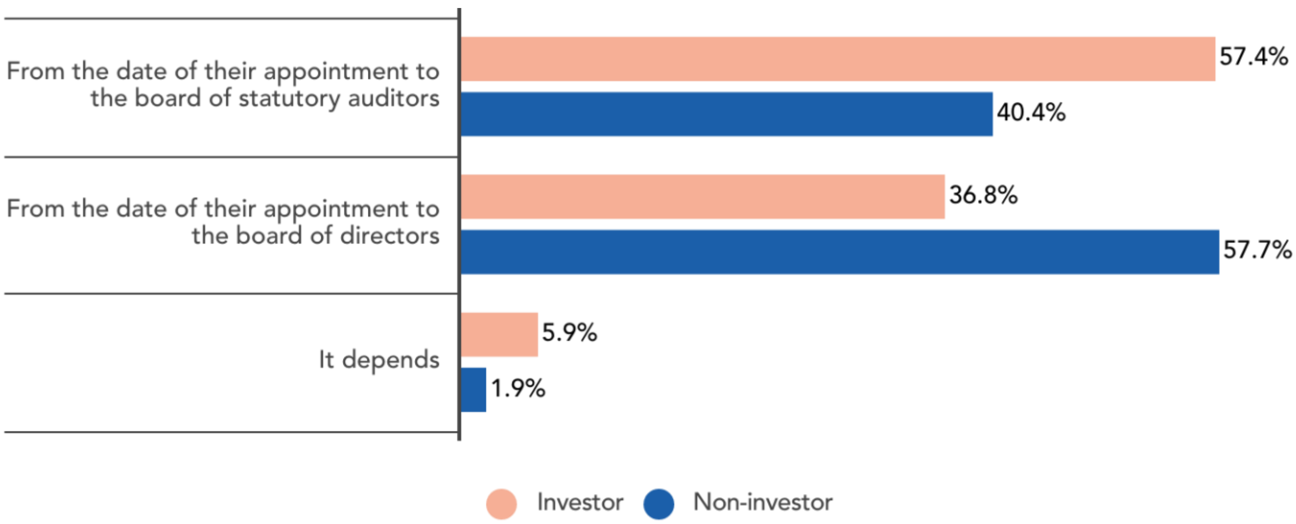


	Investor	Non-Investors
Total Responses	58	105
Total Comments	18	15

Japanese Director Tenure Calculations

Glass Lewis includes tenure as a consideration when assessing director independence. Although calculating a director's tenure is typically straightforward, that isn't always the case. For example, some Japanese companies maintain a board of statutory auditors as well as a board of directors, and it is fairly common for an individual to initially join the board of statutory auditors before later joining the board of directors. When we asked clients how they felt tenure for these directors should be calculated, a majority of investors opted to count from the initial appointment to the board of statutory auditors (57.4%, vs 40.4% of non-investors), whereas a mirror-image majority of non-investors opted to count from the subsequent appointment to the board of directors (57.7%, vs 36.8% of investors).

In Japan, some companies maintain a board of statutory auditors and a board of directors. Some individuals initially serve on the board of statutory auditors and are subsequently elected to the board of directors. In your opinion, how should the tenure of such individuals be calculated?



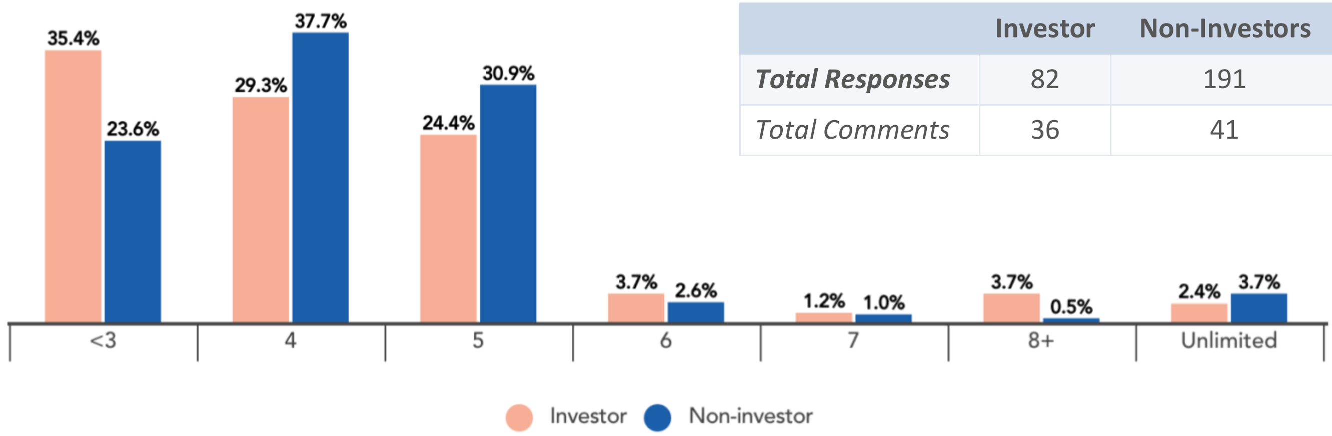
	Investor	Non-Investors
Total Responses	68	104
Total Comments	9	9

Director Commitments

Number of Commitments

Views on the number of boards a non-executive director should serve on were generally aligned, with an overwhelming majority of both groups drawing the line at 5 or fewer (89.1% of investors, vs 92.2% of non-investors), which aligns with Glass Lewis' benchmark policy. However, investors took a slightly stricter view, with 3 or fewer directorships being the most popular response (35.4%, vs 23.6% amongst non-investors). By contrast, the most popular response among non-investors was 4 (37.7%, vs 29.3% amongst investors).

In general, what is the maximum number of public company boards a non-executive director should serve on simultaneously?

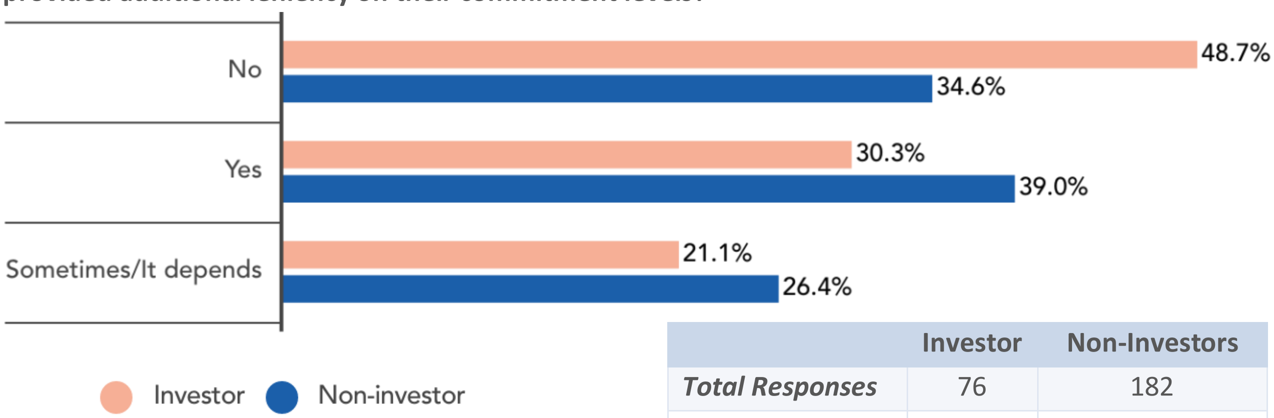


	Investor	Non-Investors
Total Responses	82	191
Total Comments	36	41

Director Commitments Policy

Investors were also less likely to agree that companies with a robust director commitments policy should be afforded leniency on overboarding (48.7% "No", vs 34.6% amongst non-investors). Amongst both groups, a significant proportion opted to approach the issue on a case-by-case basis (21.1% among investors, vs 26.4% among non-investors).

In your opinion, should directors at companies that have adopted a robust director commitments policy be provided additional leniency on their commitment levels?

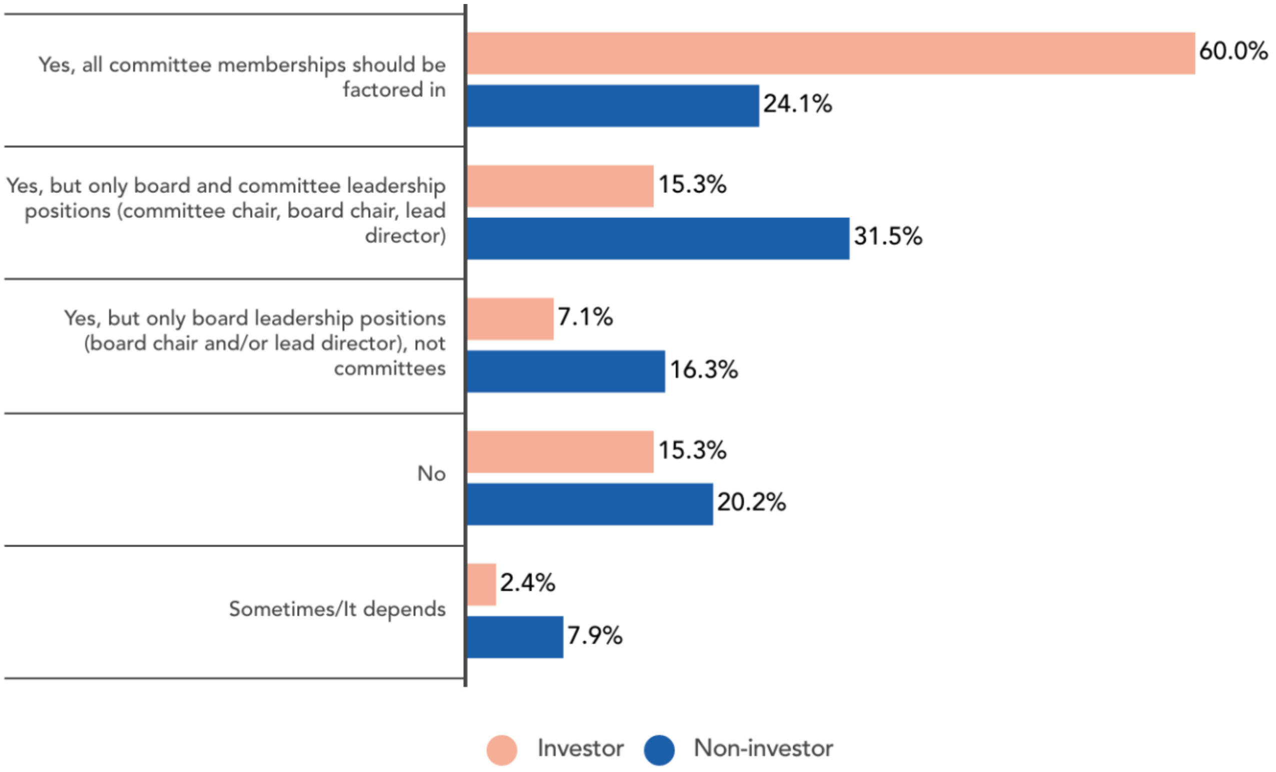


	Investor	Non-Investors
Total Responses	76	182
Total Comments	25	38

Board-Level Responsibilities

We also asked whether board-level responsibilities, such as committee membership and chair roles, should be factored in when assessing commitment levels. An overwhelming majority of both groups answered “Yes” in some form (82.4% amongst investors vs. 71.9% amongst non-investors), but there was a significant split on where to draw the line. By far the most popular response among investors was that “Yes, all committee memberships should be factored in” (60.0%, vs 24.1% amongst non-investors). By contrast, the most popular response amongst non-investors was to only count board leadership positions such as committee chair, board chair and lead director (31.5%, vs 15.3% amongst investors).

When a non-executive director serves on multiple boards, should their specific roles on those boards (e.g. lead independent director, audit committee chair, etc.) be factored into the analysis of their total commitment level?

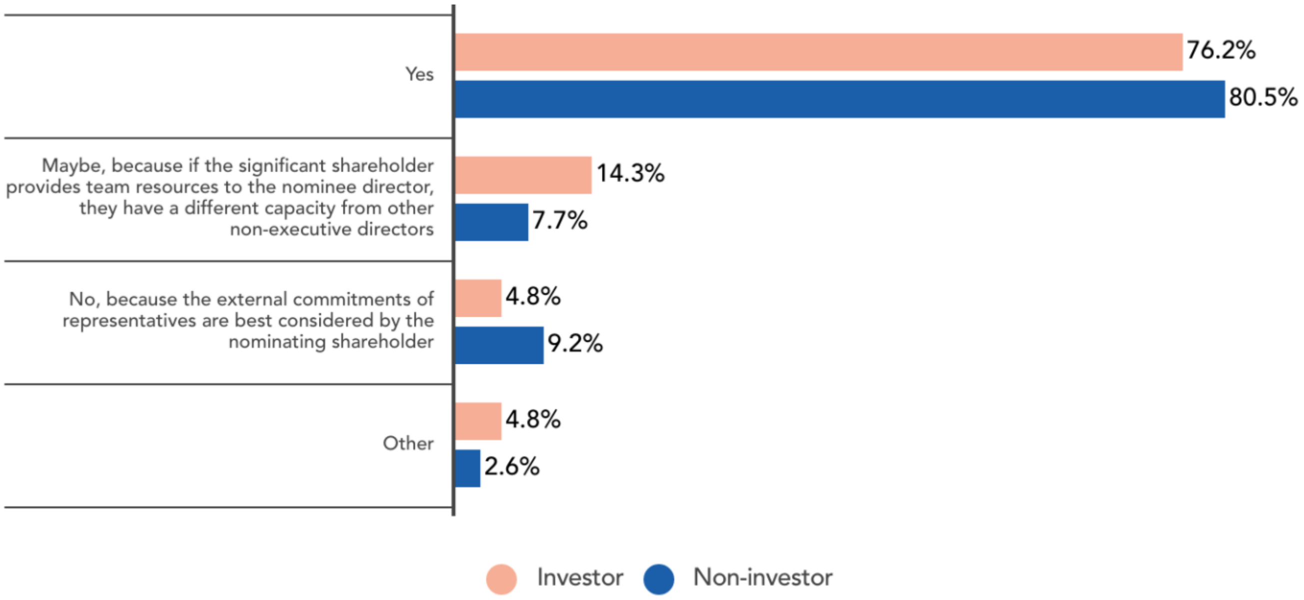


	Investor	Non-Investors
Total Responses	85	203
Total Comments	17	19

Significant Shareholder Representatives

Many of the directors we review with high external commitment levels represent the interests of significant shareholders across a range of companies. When we asked if these nominees should be held to the same external commitment standards as other directors, by far the most common response amongst both groups was "Yes" (76.2% amongst investors vs 80.5% amongst non-investors).

In your opinion, should directors nominated by significant shareholders be held to the same standards on external commitments as other non-executive directors?



	Investor	Non-Investors
Total Responses	84	195
Total Comments	11	9

Capital Structure/Voting Rights

Multi-Class Share Structures

In recent years an increasing proportion of companies going public have opted for multi-class share structures that provide superior voting rights to a designated share class over "subordinate" shareholders. In most cases, the multi-class share structures are intended to be temporary, allowing founders and early investors to maintain their influence over the company as it transitions into publicly listed status. In the meantime, they can serve to disenfranchise common shareholders and insulate the board and management. We asked clients for their view on five structures or practices that could potentially serve as mitigating factors for a company that maintains multiple classes of shares. Amongst investors, the most popular mitigating factor was the presence of a reasonable sunset clause (51.6%, vs 33.3% amongst non-investors). A reasonable sunset clause is one of the primary mitigating considerations under the Glass Lewis benchmark policy when recently-listed companies come to market with a multi-class share structure. Amongst non-investors, the most popular mitigating factor was maintaining comparable governance practices to peer companies (34.5%, vs 15.4% amongst investors). For both groups, "Multi-class share structures with unequal voting rights aren't problematic" represented the least common response (5.5% of investors, vs 12.1% of non-investors) – however, several investors defended them:

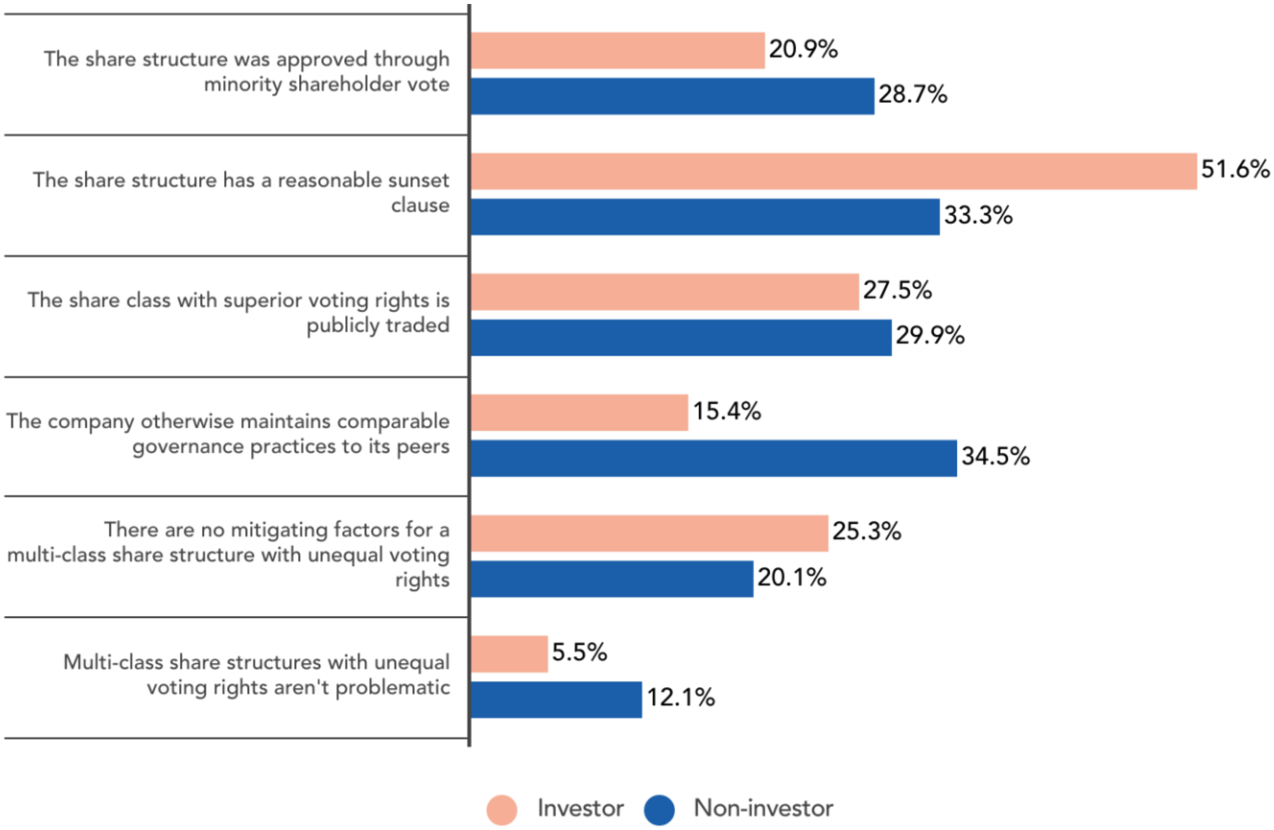
- *"Multi-class share structures can benefit investors when founders possess unique expertise critical to the company's success and when the structure facilitates a long-term strategic focus. To address potential weaknesses, companies should consider implementing several safeguards. These include obtaining approval for the structure through a minority shareholder vote, incorporating sunset provisions that transition to equal voting rights after a predetermined period or specific events, and establishing independent boards and committees with oversight powers. These measures help balance the influence of controlling shareholders and enhance corporate governance."*
- *"There is no optimum ownership structure. While the one share, one vote principle clearly aligns voting rights and economic rights for all holders, we believe that multiple share structures can be a strength: the different voting rights can enhance long-termism, protect the culture and offer greater strategic certainty for some organizations. Our primary consideration when reviewing a company with a multi-class structure is whether it has worked to the long-term benefit of all shareholders, and whether it is likely to continue to do so over time."*

These comments ran against the prevailing sentiment amongst investors, several of whom went so far as to call for the structures to be illegal.

In addition, several respondents who were critical of multi-class share structures highlighted the value of transparency:

- *"For companies with unequal voting rights, we would also consider public disclosure of the voting results on a non-unequal basis a mitigating factor -- i.e., disclosing what the results would be in a 1:1 voting structure."*

Many investors feel that multi-class share structures with unequal voting rights are typically not in the best interests of common shareholders. Which of the following would you consider to be mitigating factors for companies that maintain a multi-class share structure? (Please check all that apply)



	Investor	Non-Investors
Total Responses	133	276
Total Comments	17	22

We followed up by asking whether any directors should generally be subject to adverse vote recommendations when the company maintains a multi-class share structure without an appropriate mitigating factor. Among both investors and non-investors, the most common response was to hold the chair of the board accountable (34.1% among investors, vs 32.5% among non-investors). Notably, “None, directors should not be held accountable on this basis” was the second most common response amongst non-investors (29.1%), whereas it was one of the least common responses amongst investors (10.6%).

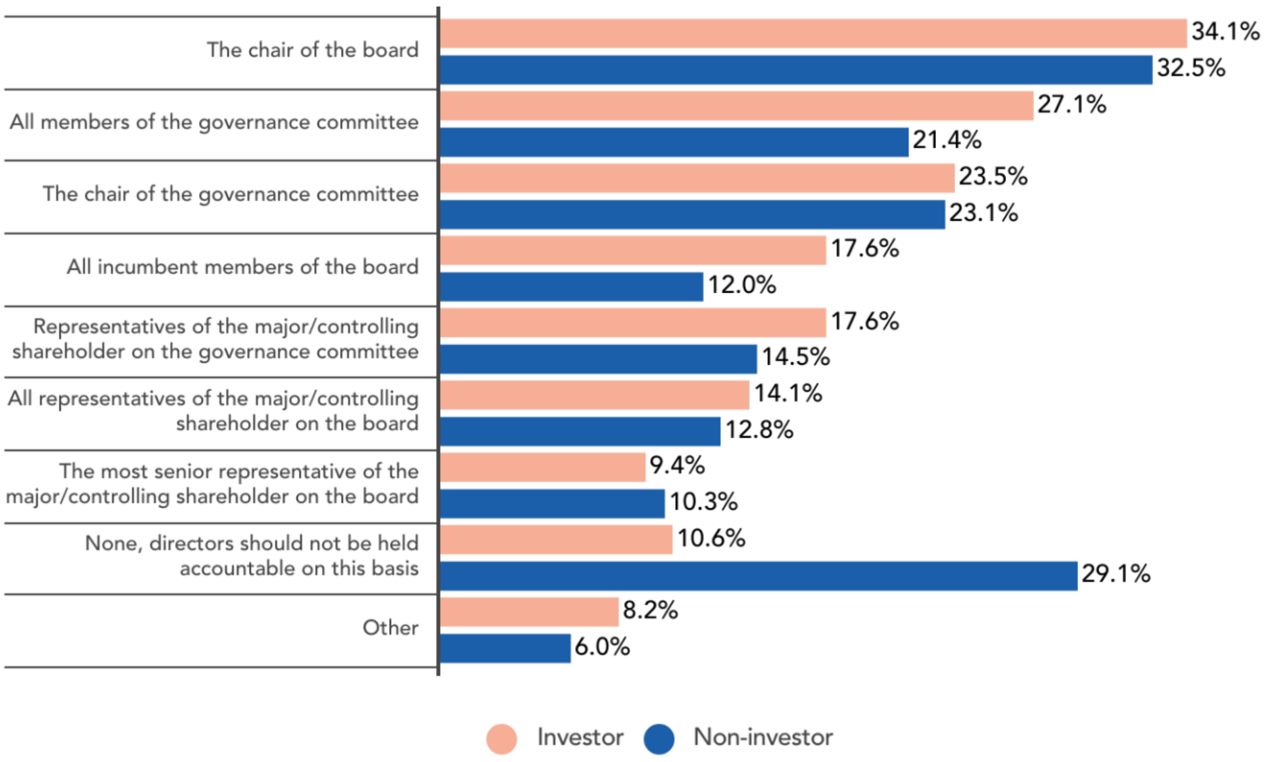
A vocal minority of respondents from both groups suggested, in brief and at length, that shareholders should consider voting with their wallets (which admittedly may prove tricky for indexed funds):

- *“You don't have to buy the shares in a company with multi-class share structure.”*
- *“Recognizing that voting sanctions would be largely symbolic, we would tend to treat this as an investment issue (it would be up to individual fund managers would decide whether to e.g. avoid or*

underweight companies on the basis of their governance arrangements). Multi class shares without mitigating factors may also impact our view of the company's governance for our in-house ESG ratings."

- *"It is a legal governance structure and shareholders can choose not to invest in the company."*

In your opinion, should any directors generally face adverse recommendations for maintaining a multi-class share structure without an appropriate mitigating factor? (Select all that apply)

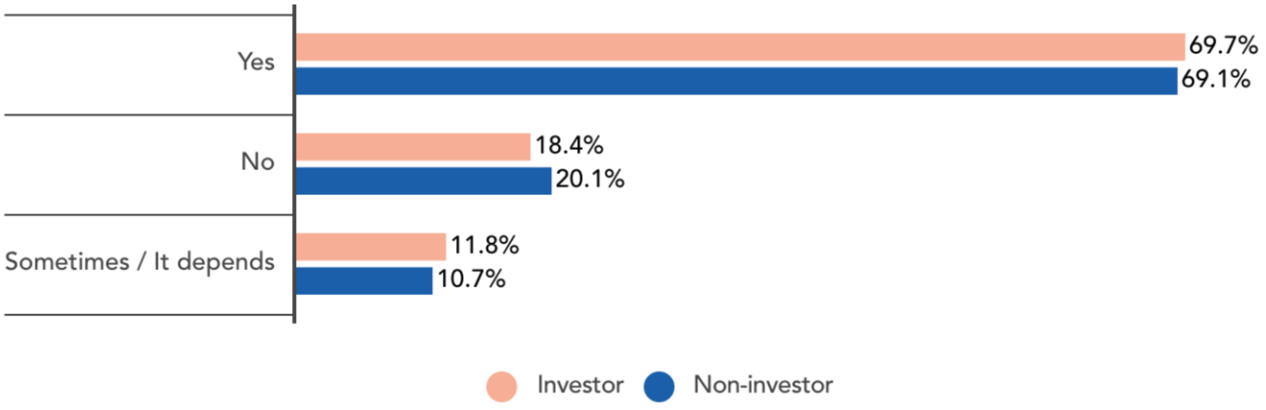


	Investor	Non-Investors
Total Responses	138	189
Total Comments	19	18

Loyalty Shares

Several European markets allow for the use of loyalty shares as a means of rewarding long-term shareholders by giving them enhanced voting power. Amongst our clients, opposition to the use of loyalty shares was strong, and strongly aligned, with both groups viewing these as a problematic governance structure (69.7% of investors vs 69.1% of non-investors).

In some markets, companies may establish loyalty initiatives that provide additional voting rights to long-term shareholders. Do you consider this to be a problematic governance structure?



	Investor	Non-Investors
Total Responses	76	149
Total Comments	19	14

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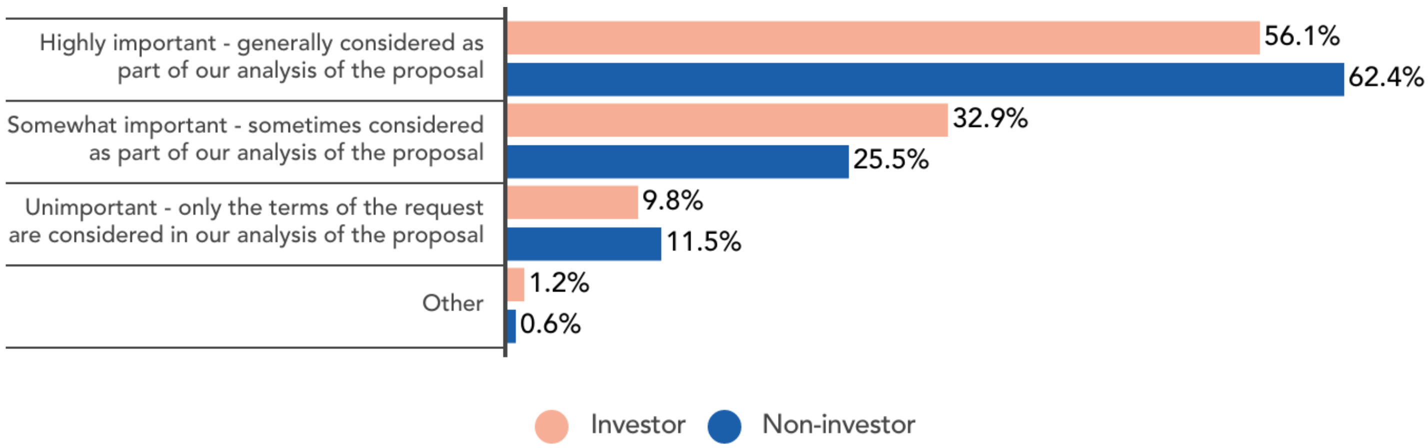
ESG and Shareholder Proposals

Shareholder proposals are typically some of the most contentious items on the AGM agenda. But when asked about their approach to these proposals, and their views on several environmental, social and governance (ESG) topics, we found a broad alignment between the groups.

Proponent Identity

For example, on the importance of knowing the proponent's identity when assessing shareholder proposals, the two groups were largely in agreement – nearly 90% of investors and non-investors alike consider the proponent's identity important, with the most common response from both groups being "Highly important" (56.1% of investors vs 62.4% of non-investors). Last year, Glass Lewis introduced a voting policy on this topic in our U.S. and ESG Initiatives benchmark policies, focused on the governance committee chair.

How important is the identity of the proponent when voting on shareholder proposals?



	Investor	Non-Investors
Total Responses	82	157
Total Comments	17	13

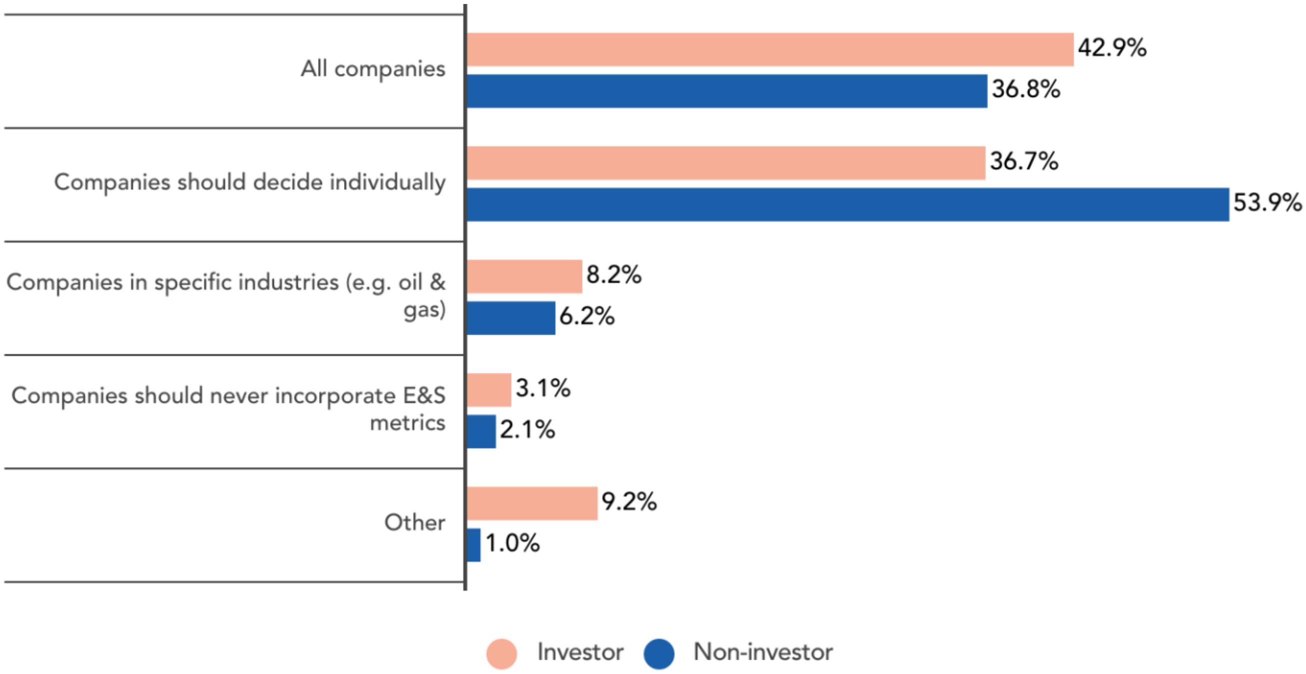
Compensation Metrics

There was also broad agreement that non-financial metrics have a place in executive compensation, with just 3.1% of investors and 2.1% of non-investors responding that "Companies should never incorporate E&S metrics". However, whereas the most popular response among investors was that "All companies" should incorporate these metrics (42.9%, vs 36.8% of non-investors), a majority of non-investors answered that "Companies should decide individually" (53.9% vs 36.7% of investors).

A common theme amongst respondents was the importance of using stretching, strategically material targets:

- *"Most companies should - but efficient, transparent and proper targets that relate to the underlying business are what is important. No ESG targets are better than bad ones."*
- *"I think some of these goals can be important, but companies should be very mindful choosing which ones. There is the potential ESG metrics can get unwieldy and grow substantially in number for a given company. The amount of compensation tied to such goals should also be scrutinized."*
- *"A company and the BOD should be the ones to determine what is appropriate in the compensation plans and if a specific measure on E&S is required. Putting in soft E&S metrics, won't move the needle or drive change. But, you see companies doing it to check a box."*

To what extent do you think companies should be incorporating ESG metrics (e.g. GHG reduction goals, employee diversity, health and safety, etc.) into their executive compensation plans?



	Investor	Non-Investors
Total Responses	98	193
Total Comments	34	23

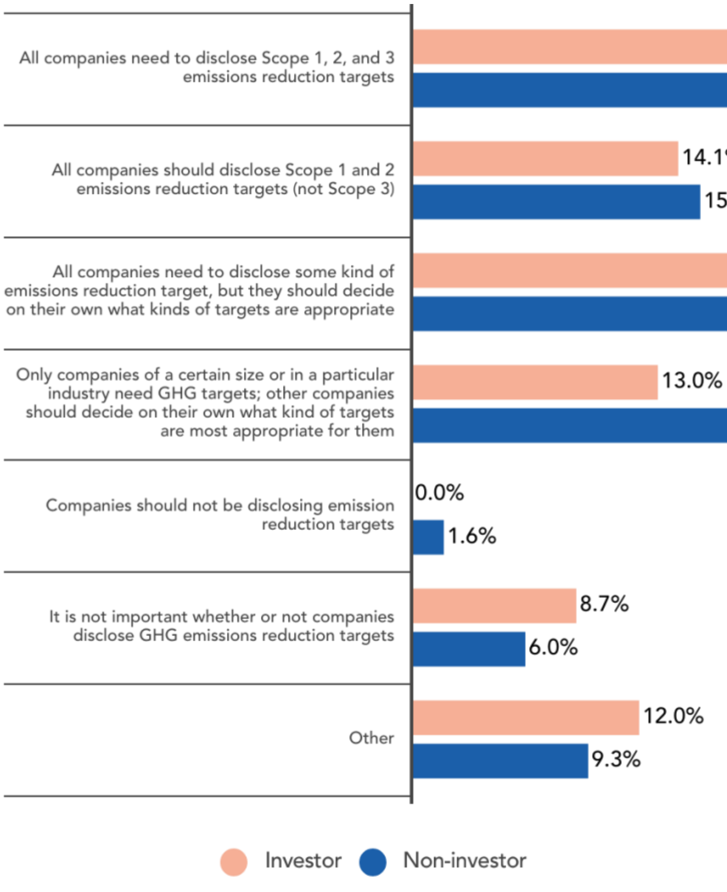
GHG Emissions Targets

When we asked whether companies should disclose greenhouse gas emissions reduction targets, the spread of responses was similar. Just 8.7% of investors and 7.6% of non-investors responded either “Companies should not be disclosing emission reduction targets” or that such disclosure “is not important”. That said, whereas the most popular response among investors was that “All companies need to disclose Scope 1, 2 and 3 emissions reduction targets” (33.7%, vs 21.3% of non-investors), the most popular non-investor response was that “Only companies of a certain size or in a particular industry” need targets and other companies should be left to decide for themselves (27.3%, vs 13.0% of investors).

Many respondents acknowledged the practical hurdles involved, at length or in brief:

- *“Targets should be aligned with climate science (1.5C scenario). Companies should acknowledge where target-setting is not feasible due to limitations in technology, control, or measurement, rather than set weak or unattainable goals, and demonstrate working towards mitigating those impacts.”*
- *“Companies should disclose Scope 1 and 2 GHG emissions and related reduction targets if deemed material, but should not be penalized for not doing so until there is more standardization in applying calculation methodology within specific industries.”*
- *“Scope 3 disclosure is a fantasy.”*

What are your views on companies disclosing greenhouse gas (GHG) reduction targets?



	Investor	Non-Investors
Total Responses	92	183
Total Comments	30	32

Emerging Board Skills

The scope of the board's responsibilities has expanded in recent years, and we wanted to gauge how skillsets in emerging areas of non-financial oversight are factored in when considering board composition. For the Public Policy, Human Capital Management, Climate and Environment categories, the proportion of both groups that viewed these skillsets as important were largely aligned, albeit with investors more likely to view each as "Very important" as opposed to "Moderately important." Investors were more likely to view the other categories as important – with the exception of Cybersecurity, which was viewed as more pressing amongst non-investors than investors (91.7% "Very" or "Moderately" important amongst non-investors, vs 81.6% amongst investors).

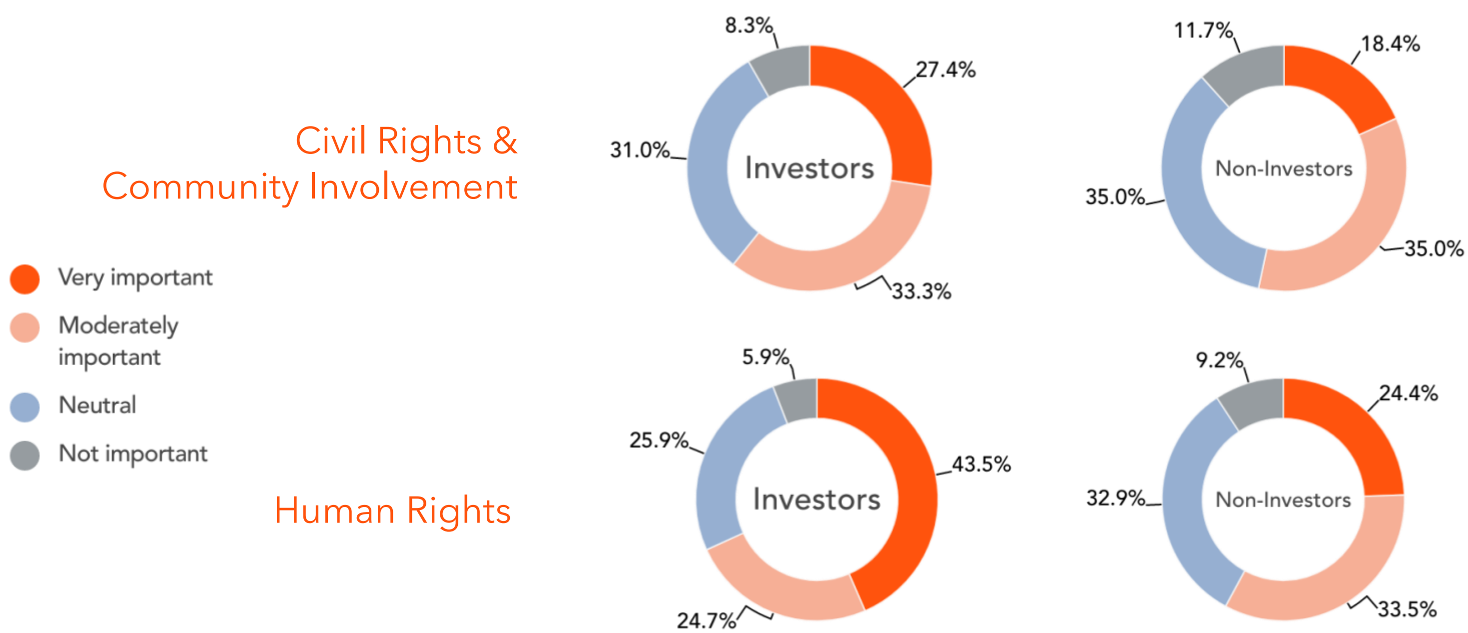
Multiple respondents highlighted the importance of the board's oversight duty and having access to the requisite skills, but not necessarily expecting there to be a subject matter expert on every material topic on the board:

- *"It is impractical to expect boards to have subject matter expertise/skills in all relevant areas represented among their membership."*
- *"Directors/boards should have a diversity of skill sets, but should also seek out expert advisors."*
- *"Directorships are by definition high level roles. They need not be experts in any area. They need to have broad business expertise and judgement. "*

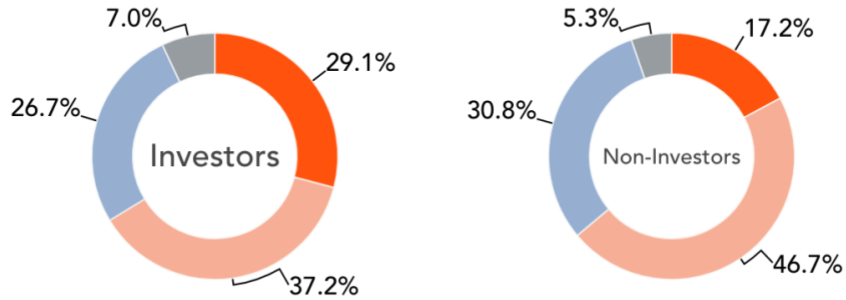
In addition, several respondents noted their approach is dependent on the company, its sector, and materiality:

- *"This will vary by sector, jurisdiction, the regulatory environment that a specific company is facing. "*
- *"The importance of a given skillset/qualification will depend on the material financial risks associated with the company's strategy and operations. "*

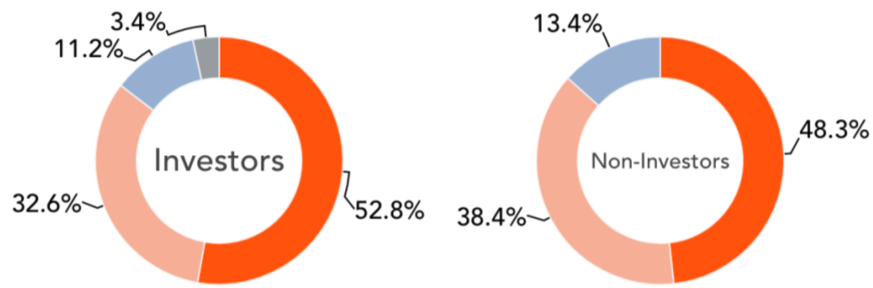
How important do you consider the following director skills/qualifications to be in your assessment of board skillsets?



Public Policy

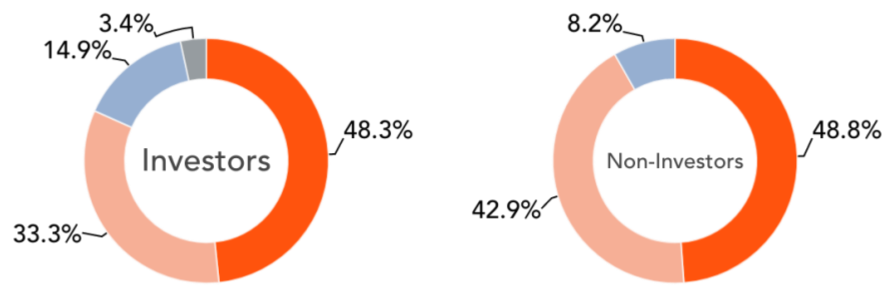


Human Capital Management

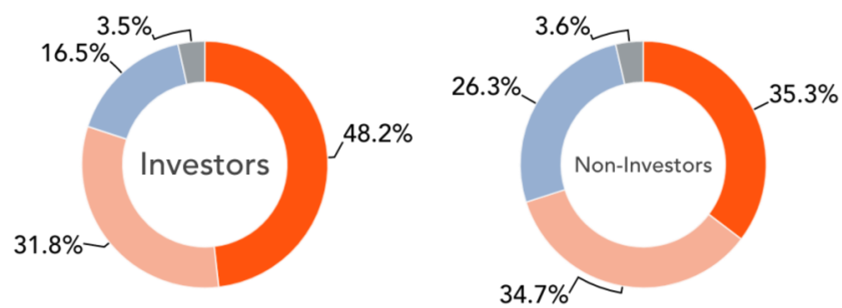


- Very important
- Moderately important
- Neutral
- Not important

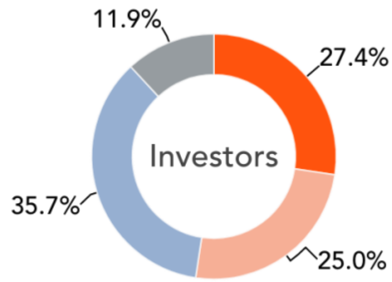
Cybersecurity

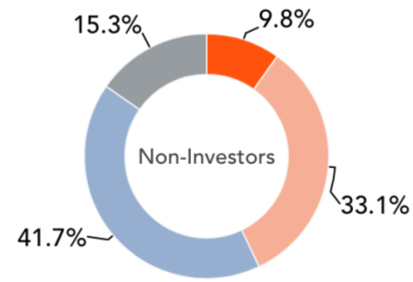


Health & Safety

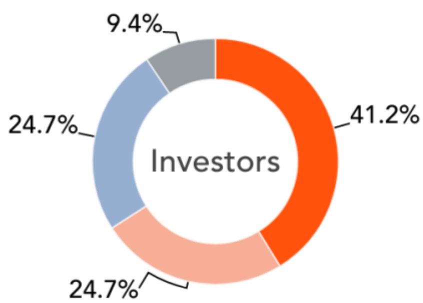


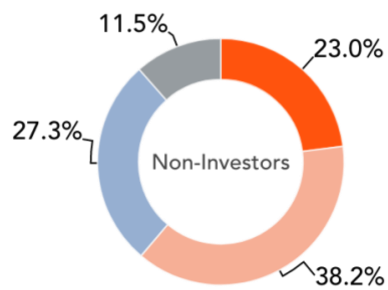
Biodiversity



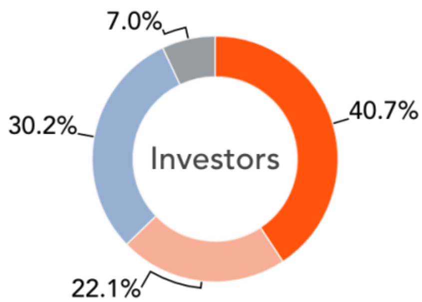


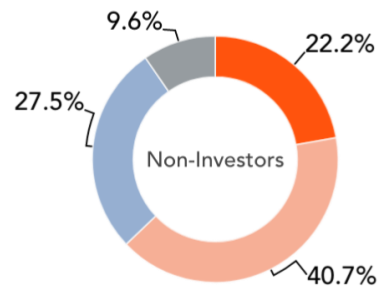
Climate Change





Environment





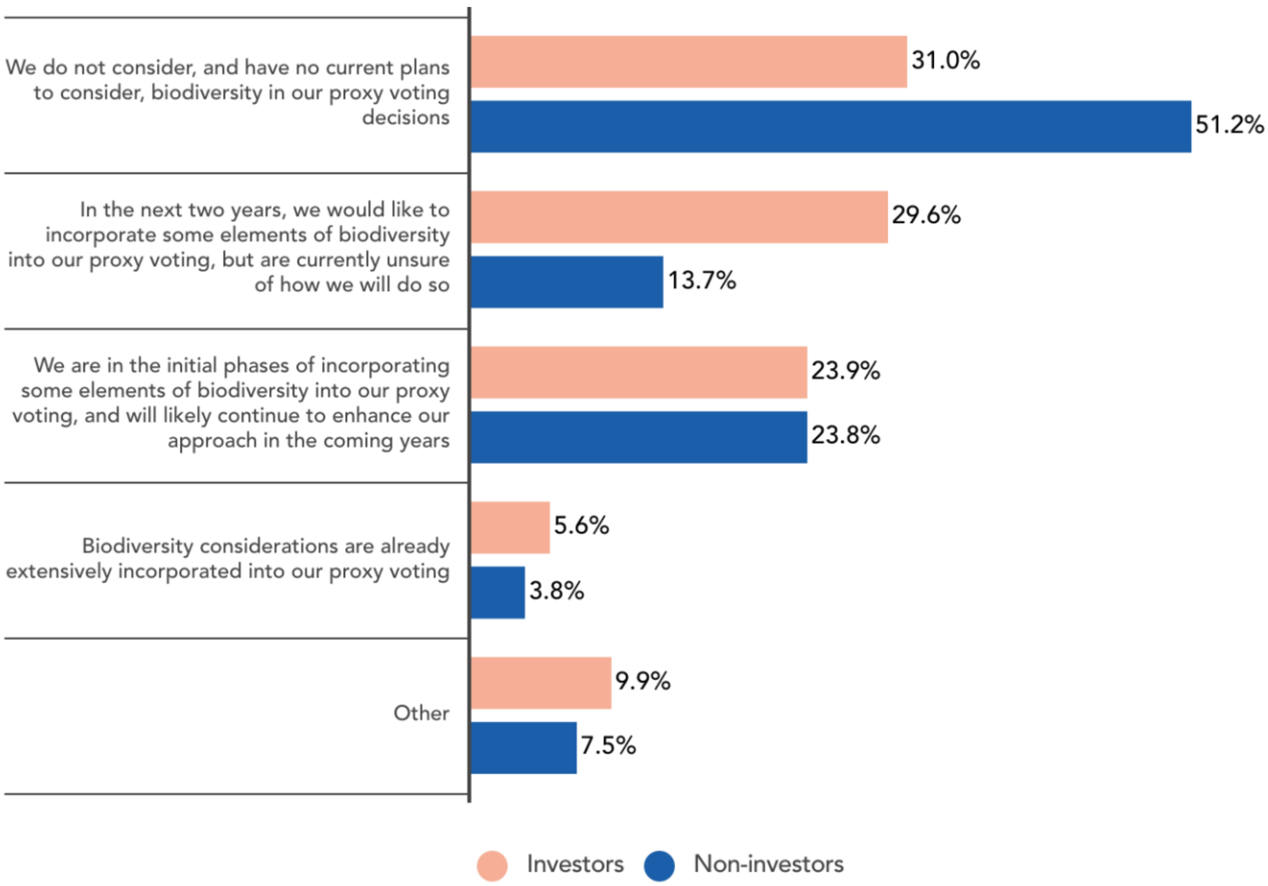
	Investor	Non-Investors
Avg. Total Responses	86	167
Total Comments	35	37

- Very important
- Moderately important
- Neutral
- Not important

Biodiversity

Risks related to reliance on ecosystems and land use, or biodiversity, represent an emerging area of investor focus. We asked whether respondents consider biodiversity in their proxy voting decisions. While the most popular answer amongst both groups was “We do not consider [biodiversity], and have no current plans to”, this response was much more popular amongst non-investors (51.2%, vs 31.0% amongst investors). Nearly the same proportion of investors responded that they do plan to incorporate some elements of biodiversity in the next two years (29.6% vs 13.7% of non-investors), and nearly a quarter of both investors (23.9%) and non-investors (23.8%) already incorporate biodiversity.

How are you considering biodiversity in your proxy voting decisions?



	Investor	Non-Investors
Total Responses	71	80
Total Comments	21	16

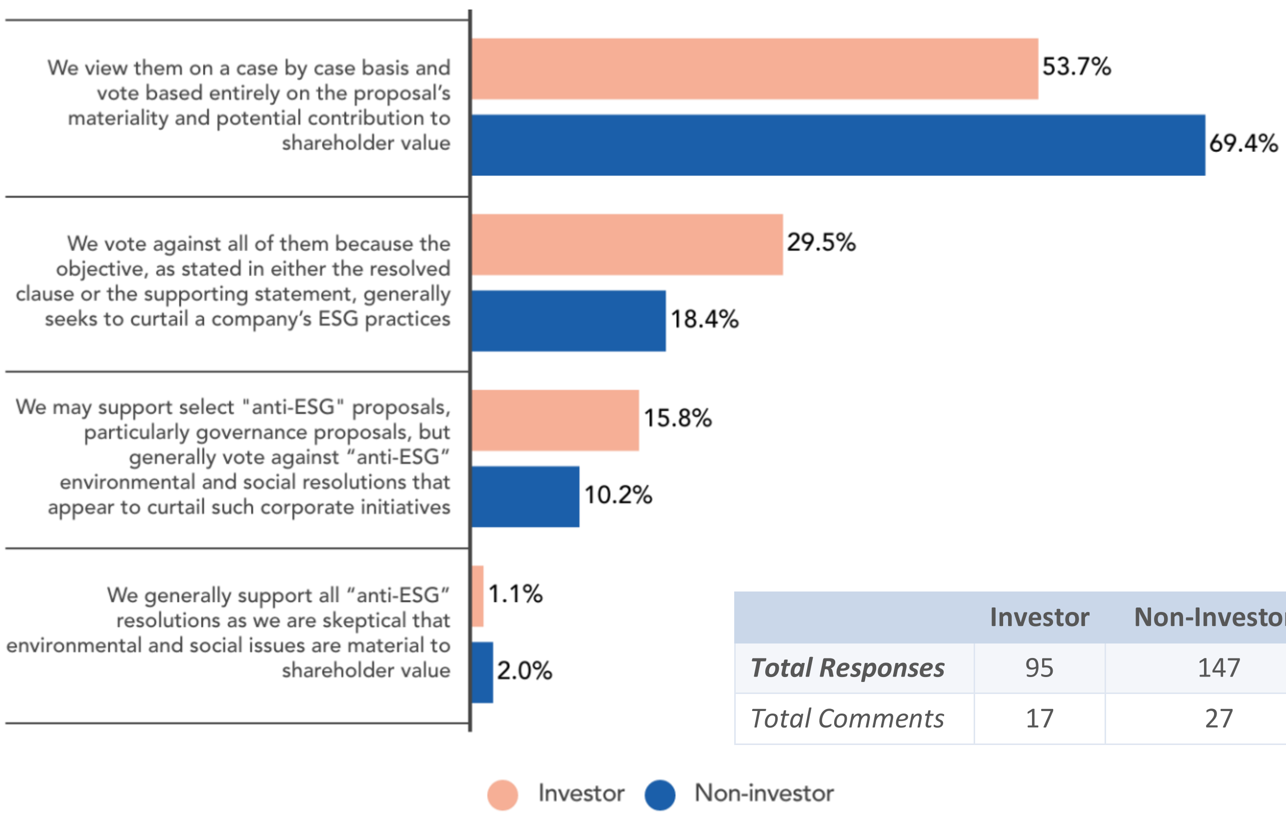
“Anti-ESG”

Shareholder proposals that are skeptical of corporate environmental, social and governance initiatives, also known as “anti-ESG” proposals, are appearing on AGM ballots more frequently. While they have generated intense debate, when we asked how respondents approached them, the breakdown of most-to-least popular responses was the same amongst investor and non-investors. In both groups, a majority of respondents “view them on a case-by-case basis and vote based entirely on the proposal’s materiality and potential contribution to shareholder value” (53.7% of investors vs 69.4% of non-investors), and only a tiny proportion responded that “We generally support all “anti-ESG” proposals as we are skeptical that environmental and social issues are material to shareholder value” (1.1% of investors vs 2.0% of non-investors). That said, a significantly larger proportion of investors responded that they oppose all anti-ESG proposals (29.5%, vs 18.4% of non-investors).

Many respondents explained that their approach to “anti-ESG” proposals is in line with their general approach to shareholder proposals:

- *“Many are skeptical unless it can be shown, with economic impact analysis, to be material to a company and its shareholders. It can't just be an emotional or political argument on either side of the issue. Recommendations need to be well reasoned and grounded in material fact otherwise shareholders are hurt by this.”*
- *“We [consider] exempt solicitations and supporting statements. If they diverge from the intent of the resolve clause we will take that into consideration. This is our approach for all shareholder proposals.”*
- *“We still prioritize financial materiality when evaluating E & S matters, including anti-ESG issues”*
- *“all shareholder proposals should be viewed on a case by case basis and voted on based on its merits.”*

How does your firm view shareholder proposals that are skeptical of corporate environmental, social and governance initiatives, also known as “anti-ESG” shareholder proposals?



	Investor	Non-Investors
Total Responses	95	147
Total Comments	17	27

Executive Compensation

Whereas we observed broad alignment on environmental and social topics, there was a fairly consistent divide between investor and non-investor respondents when it came to matters of pay.

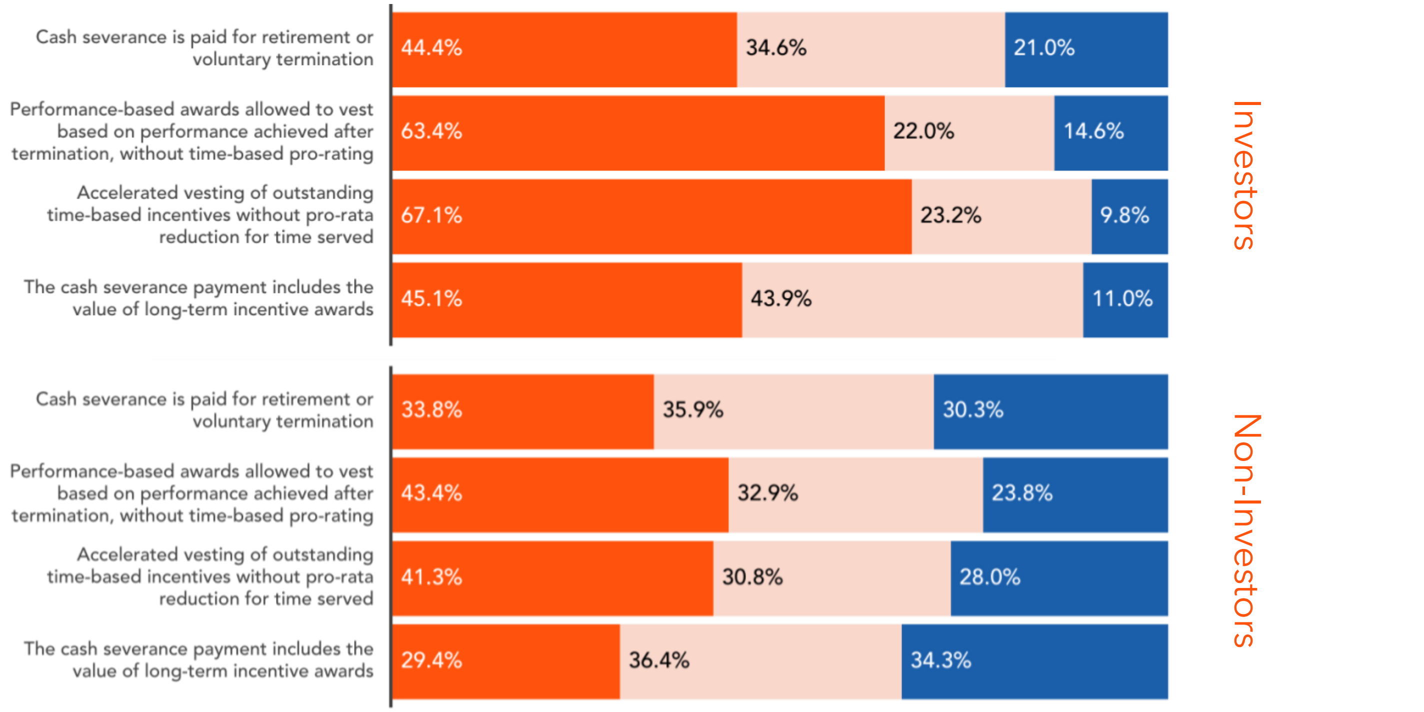
Termination Benefits

When we asked respondents for their views on the provision of various termination benefits if an executive is terminated without cause, more investors viewed each benefit as “Generally concerning” (55.0% on average, vs 37.0% amongst non-investors) and more non-investors viewed each benefit as “Not concerning” (29.1% on average, vs 14.1% amongst non-investors).

This does not mean investors are not practical. Several investor respondents expressed recognition that, in some cases, termination payments may facilitate:

- *"[a]peaceful/discrete separation....it can be pragmatic when alternatives are taken into account."*
- *"Sometimes, it's worth paying a lot to get rid of an underperforming CEO, but boards should have more of a backbone than they do."*

Where an executive is terminated without cause, how do you view the following separation benefits?



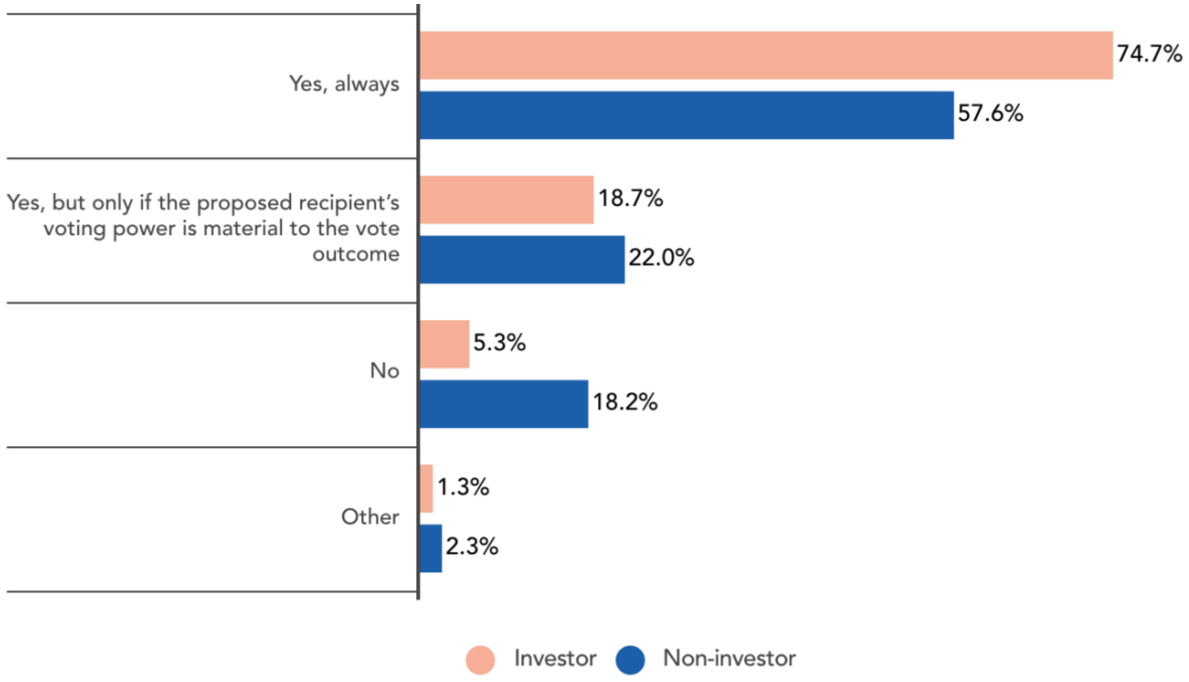
	Investor	Non-Investors
Total Responses	82	143
Total Comments	10	25

Insider Shareholder Abstention on Self-Pay Votes

There was more alignment on the question of whether executives with significant shareholdings should abstain from voting on their own equity grants, with the same breakdown of most-to-least popular categories. That said, significantly more investors responded that such executives should "always" abstain from voting on their own grants (74.7%, vs 57.6% amongst non-investors) and significantly more non-investors responded "No" (18.2%, vs 5.3% amongst investors).

On this topic, perhaps surprisingly, it was the non-investor group's additional commentary that made the stronger case for abstention, repeatedly noting conflicts of interest.

If a company is seeking approval for an equity grant/plan to an executive or director who is also a significant shareholder, do you believe that they should be required to abstain from voting on the proposal?



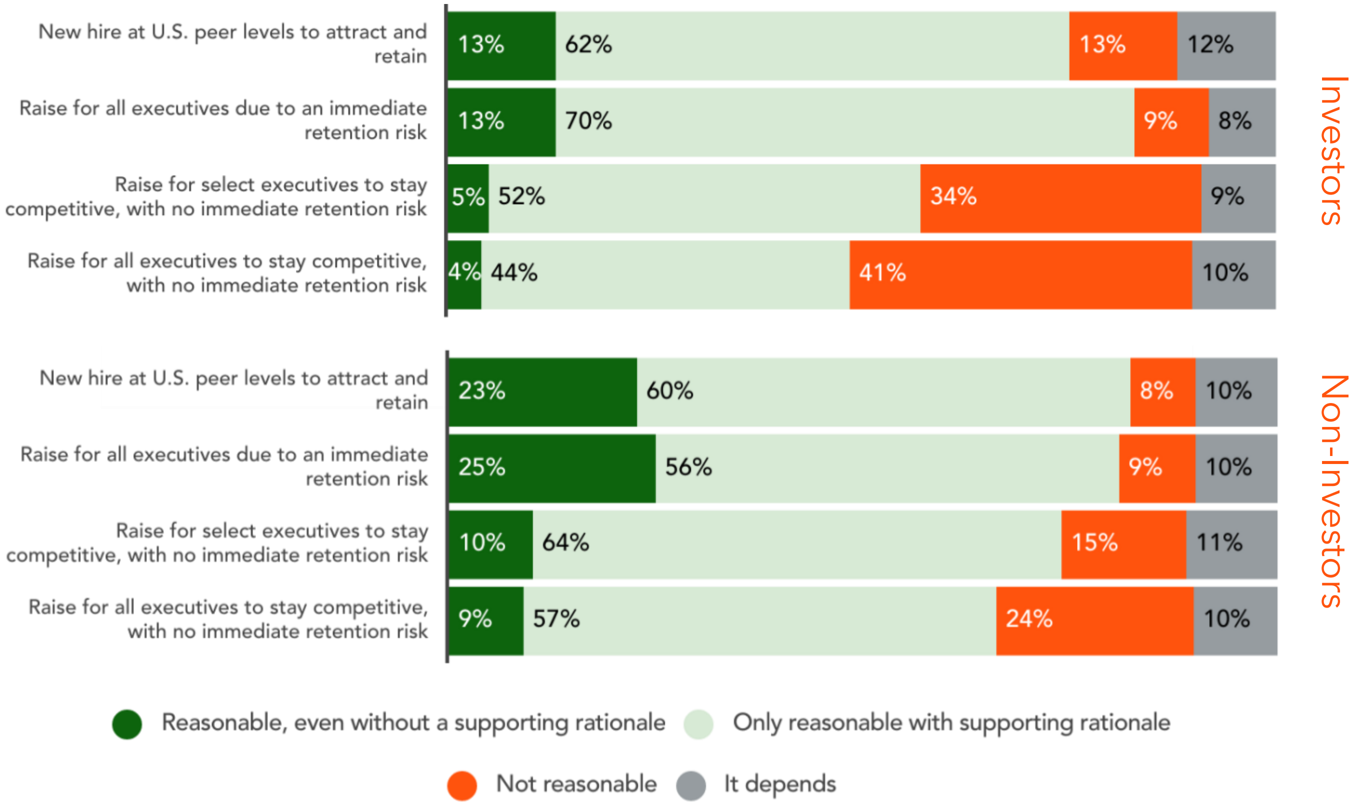
	Investor	Non-Investors
Total Responses	75	132
Total Comments	5	10

Overseas Competition & Compensation

Most markets have their own norms when it comes to executive pay, but the U.S. market has long stood as an outlier on quantum and structure of incentives and entitlements. The imbalance between U.S. and other market norms has contributed to complex and contentious pay votes at UK, European and Australian companies competing for global talent over the years – and made headlines earlier this year after London Stock Exchange chief executive Julia Hoggett complained that the UK pay environment leaves local companies at a disadvantage.

When we asked about several scenarios where a non-U.S. company justifies a pay raise based on U.S. competition, the breakdown of most-to-least popular responses was aligned between the two groups. However, investors were roughly half as likely to view each as "Reasonable, even without a supporting rationale" compared to non-investors (8.9% on average amongst investors, vs 16.8% amongst non-investors). Raises granted for some or all executives with no immediate retention risk were particularly divisive, with investors far more likely to consider these "Not reasonable" (33.8% for some executives and 41.2% for all executives, vs 14.7% and 23.6%, respectively, amongst non-investors).

Companies often cite competitive pressures to justify executive pay increases. How would you view the following scenarios involving a non-U.S. company raising pay based on U.S. competition?



	Investor	Non-Investors
Total Responses	75	143
Total Comments	21	22

On the same topic of overseas competition, we followed up by asking whether it was appropriate for all multi-national companies to set their pay against global industry peers, rather than local peers. Whereas the most popular response amongst investors was that "Only large-cap multi-nationals that don't have similarly sized local peers should ignore the local pay environment" (32.4%, vs 20.4% of non-investors), the most popular response amongst non-investors was that "Yes, any companies with operations overseas should be able to compete globally" (39.5%, vs 25.0% of investors).

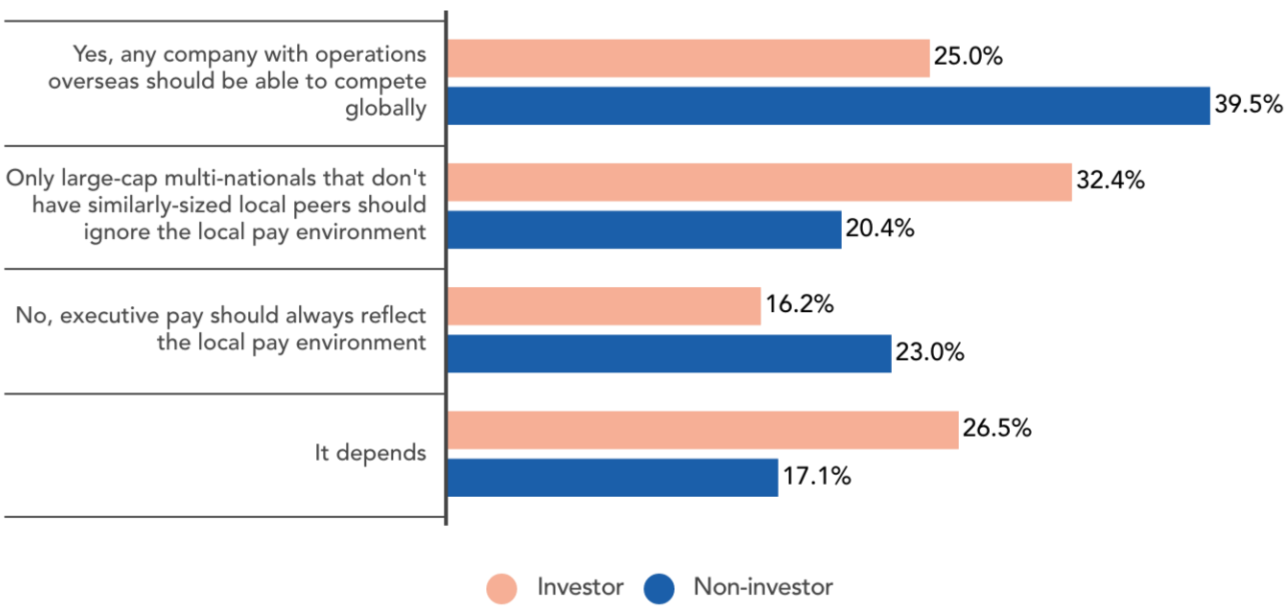
This is a nuanced topic, and generated a relatively high rate of “It depends” responses (26.5% of investors and 17.1% of non-investors). Many of these respondents provided further detail:

- *“Generally we think pay should reflect local pay environment but will take into consider[ation] unique competitive pressures at times. Although, we note that it is rare for a CEO to leave for another CEO position.”*
- *“Multinationals may need to deviate from local market norms on occasion to maintain competitiveness. Such deviations, when necessitated, should be thoughtfully applied. As a matter of corporate policy, it is often not appropriate to target global industry peer pay levels by default as differences in nominal/target pay levels do not necessarily account for all the relevant facts and circumstances e.g. such as cost of living or local tax considerations etc.”*
- *“It is not a question whether the company has operations overseas. It is a question where the relevant peers are based and from where the company can attract its executives.”*
- *“Executive pay should generally reflect the local pay environment. If companies cite competitive risk for executives, it may be reasonable to conclude they also face competitive risk for employees below the executive level; thus, it's likely not justified for companies to raise pay for top executives without also raising pay for the broader workforce.”*
- *“It's really up to the company to justify how they evaluate their peer environment.”*

One investor lamented:

- *“I wish euro execs would make more. they don’t have enough skin in the game.”*

Is it appropriate for all multi-national companies to set their pay to global industry peer levels, rather than local peer levels?

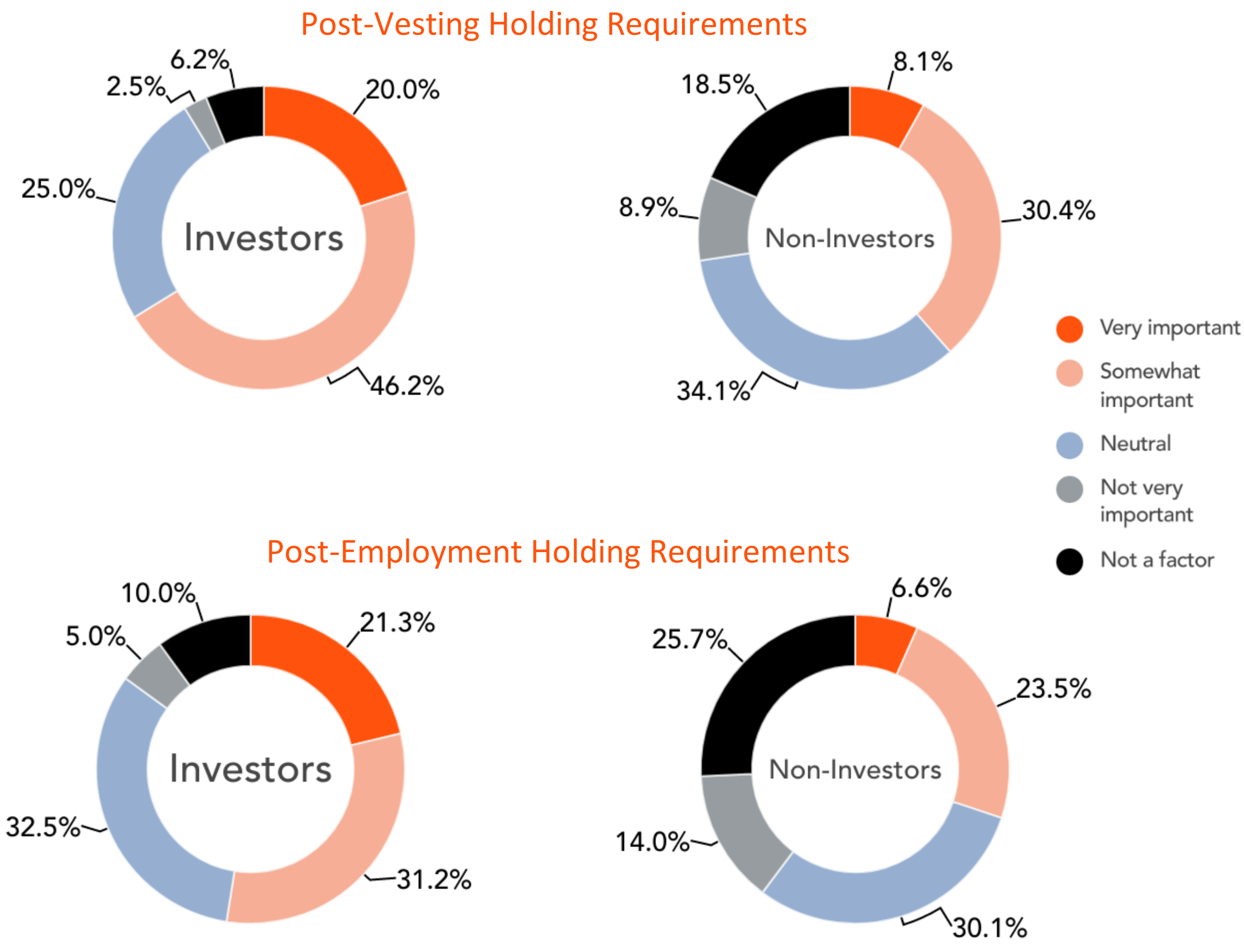


	Investor	Non-Investors
Total Responses	68	152
Total Comments	19	29

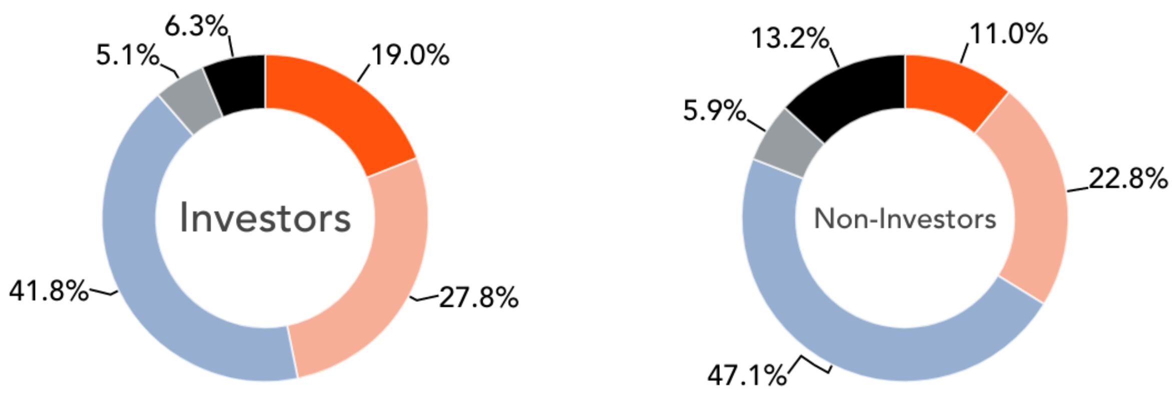
Shareholding Requirements

Requiring executives to hold a significant level of equity is a common way to align their interests with those of shareholders. We have observed a variety of different approaches to shareholding requirements, and wanted to learn how clients viewed the importance of six common structural features. Overall, investors were generally more likely to consider these features either "Very" or "Somewhat" important (62.8% on average, vs 50.9% amongst non-investors). In particular, investors were far more likely to view post-vesting and post-employment holding requirements as important (66.2% and 52.5%, respectively, vs 38.5% and 30.1% amongst non-investors), and also put more emphasis on the exclusion of both vested options (46.8% vs 33.8%) and unearned/unvested equity (54.5% vs 44.1%) when calculating holding levels. However, the two groups' views on the size and presence of an ownership requirement was roughly aligned, with non-investors slightly more likely to view these factors as important (78.8% and 79.7%, respectively, vs 78.1% and 78.6% amongst investors).

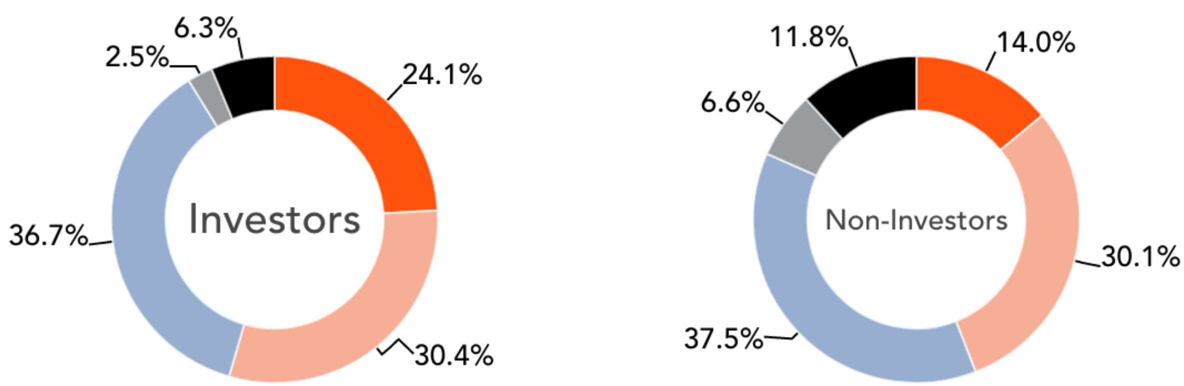
When assessing a company's share ownership requirements, how important are the following features?



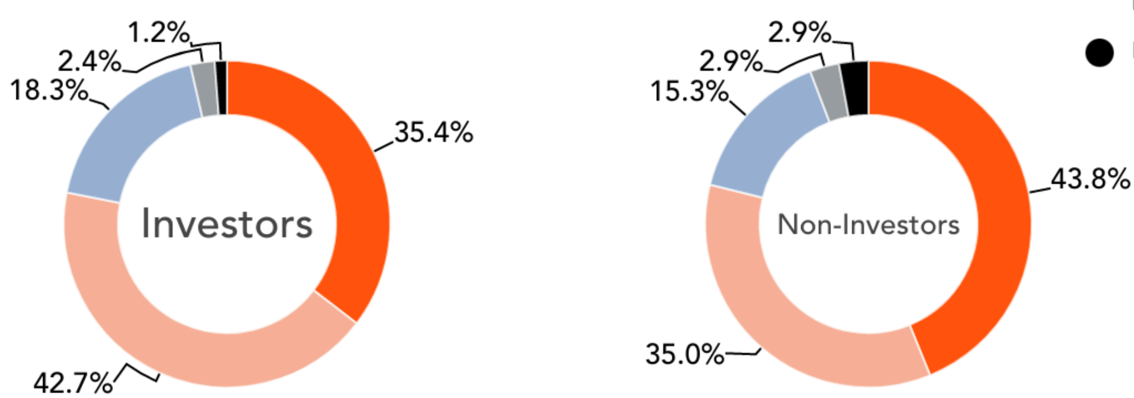
Exclusion of Vested Options



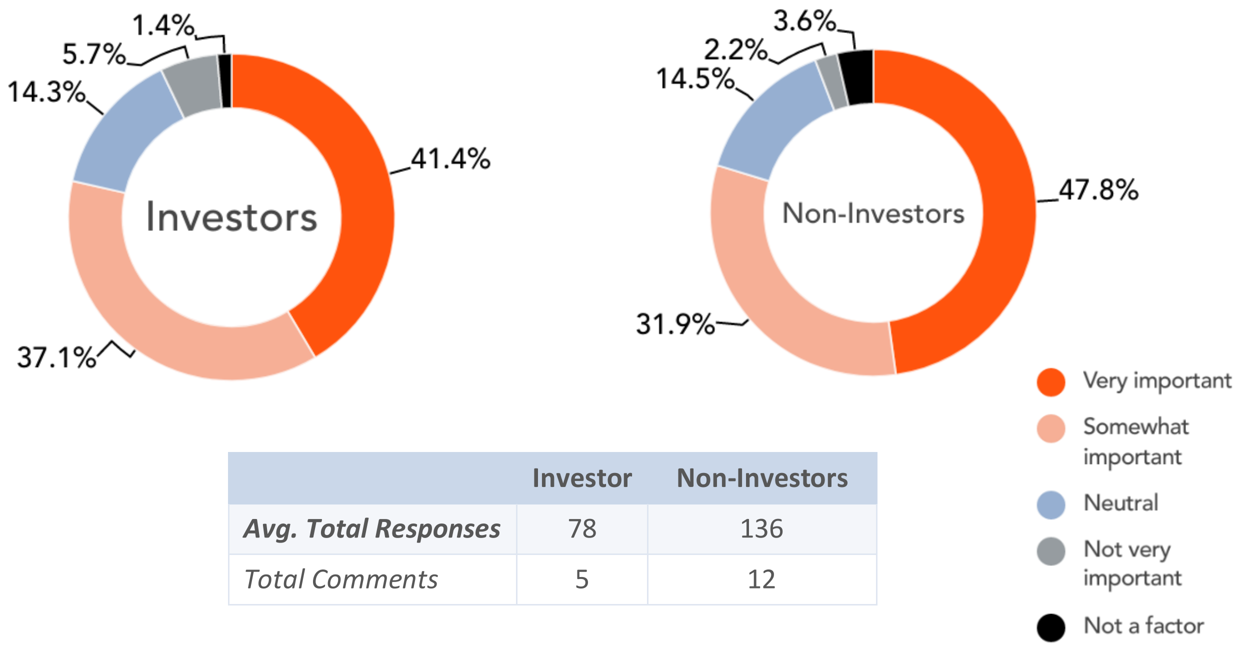
Exclusion of Unearned/Unvested Equity



Size of the Ownership Requirement



Presence of ANY Ownership Requirement (size & terms don't matter)



	Investor	Non-Investors
Avg. Total Responses	78	136
Total Comments	5	12

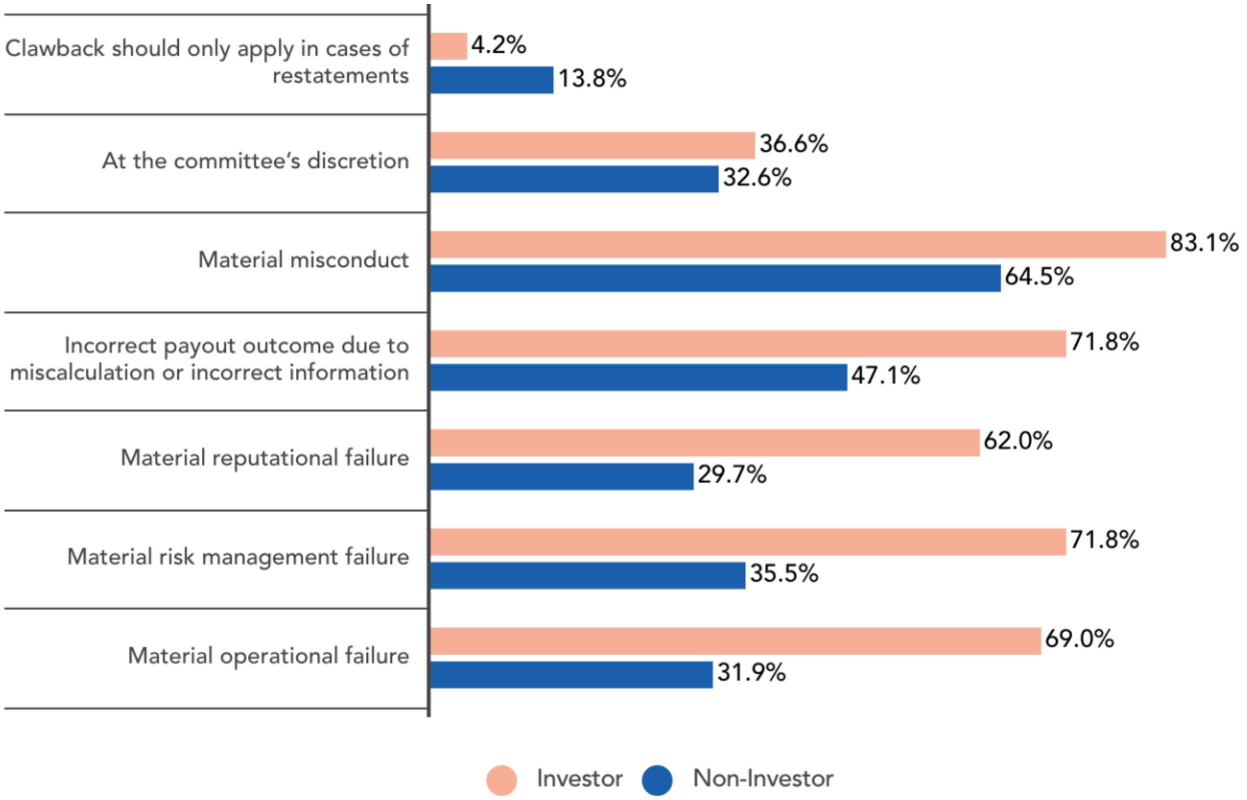
Clawback Applicability

Clawback provisions on incentives are another common feature that is implemented in a variety of ways, and for a variety of reasons. We asked whether clawbacks should apply under seven different scenarios. While the most-to-least popular responses were mostly aligned, investors were more likely to support each of them (54.3% on average, vs 31.2% amongst investors), in most cases by a wide margin. The largest divergences were in cases of material operational failure (a 37.1% difference), material risk management failure (36.3%), and material reputational failure (32.3%). Notably, 13.8% of non-investors responded that clawbacks should only apply in cases of restatement, compared to 4.2% of investors; this was the least popular response amongst both groups. Ensuring the alignment of executive pay with the shareholder experience may be behind investor responses. As one investor put it, "If shareholders are impacted, then pay should be impacted." But the additional commentary from investors demonstrated the need for fair consideration of the rights of executives in the face of a potentially capricious board that is given outsized power over contractually determined incentive pay.

Several investors noted that making clawback provisions too thorough can actually make them more difficult to legally apply, and that broad provisions allowing directors to apply voluntary downward adjustments is a more "legally assured" way to get the desired results:

- *"A degree of compensation committee discretion should feature in a clawback provision e.g. when it comes to determining what constitutes a "material reputational failure". This discretion should not be unlimited as such a broad ability to modify pre-agreed incentive terms may create excessive uncertainty for executive teams, inadvertently stifle recruitment or otherwise prove counterproductive."*
- *"[Glass Lewis] should be more mindful of the actual feasibility to implement such clawback provisions in the respective markets (i.e. not sanctioning where it can't be used appropriately by companies)"*

Where a restatement has not occurred, do you believe clawback policies should be applicable in response to any of the following? (Select all that apply)



	Investor	Non-Investors
Total Responses	71	138
Total Comments	19	14

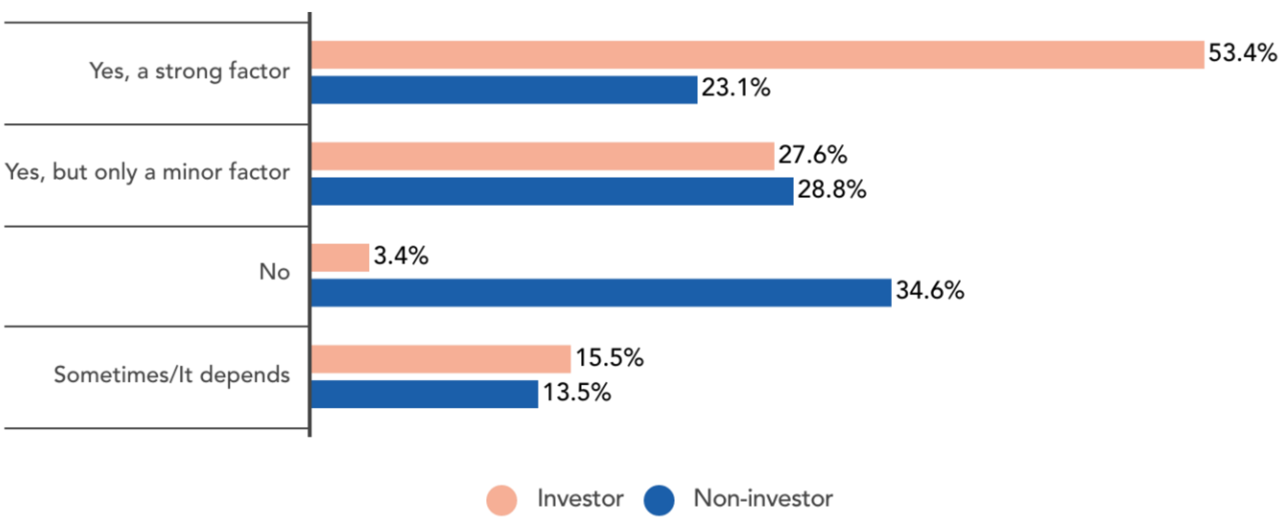
Adjusted Performance Measures

When companies base executive incentives on adjusted financial performance metrics, it can be difficult to reconcile the resulting payouts with the company's reported financial results. While the U.S. Securities and Exchange Commission (SEC) has issued guidelines seeking to rein in aggressive reporting amongst U.S. companies, there is no requirement to disclose Non-GAAP-to-GAAP reconciliation in the proxy statement. With that in mind, we asked if the absence of explanatory disclosure should be a factor when forming Say on Pay vote recommendations in situations where incentive outcomes are materially impacted by the use of adjusted Non-GAAP results. An overwhelming majority of investors responded that "Yes", it would definitely impact their vote decision to some extent (81.0%, vs 51.9% of non-investors), with more than half viewing it as "a strong factor" (53.4%, vs 23.1% of non-investors). The most common response among non-investors was "No" (34.6%, vs 3.4% of investors).

Investors' additional commentary focused on the need for transparency, while non-investor commentary mostly highlighted the need for a nuanced, case-by-case approach, often noting that "it depends":

- *"on the magnitude of the difference … and impact on total compensation;*
- *"on the size and revenue of the company given the additional expense";*
- *"on the level of disclosure regarding the achievement";*
- *On the "circumstances around why [the adjustment] was made … [and] whether the item is genuinely a non-recurring item";* and most succinctly,
- *"It depends on the facts."*

Noting that this disclosure is <u>not</u> an SEC requirement — where incentive outcomes are materially impacted by the use of Non-GAAP results and the company fails to provide a reconciliation in the proxy statement, should this be a factor in determining Say on Pay vote recommendations?



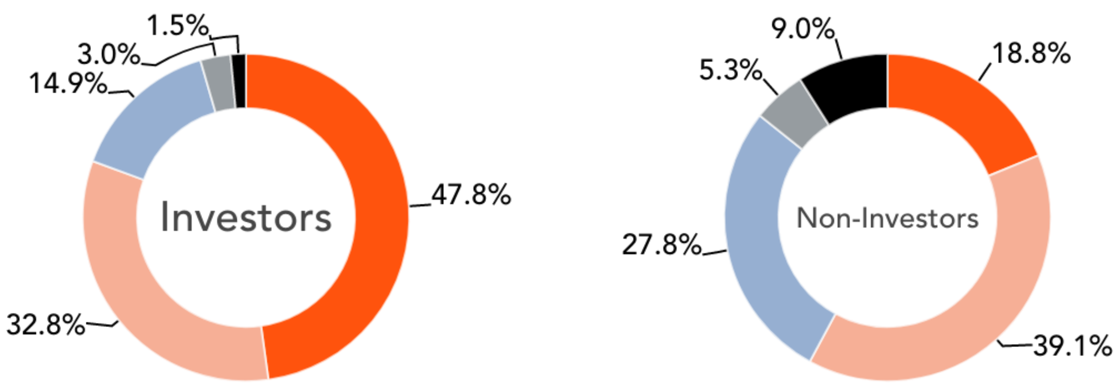
	Investor	Non-Investors
Total Responses	58	104
Total Comments	11	18

Assessing Pay and Performance

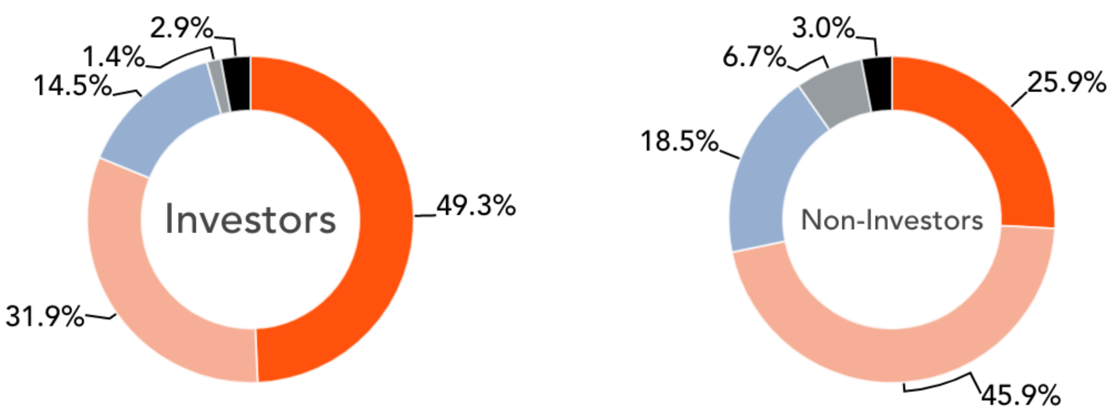
Given the sheer number of considerations relating to executive compensation – and the complexity of most incentive programs – forming vote decisions on pay requires weighing a variety of factors. We identified five of the most common factors, and asked respondents how they viewed them on a five-point scale. Amongst both groups, "Financial results (excluding TSR)" received the most "Very important" responses. However, whereas over 80% of investors viewed each factor as either "Very" or "Moderately" important (85.0% on average), other factors received less support from non-investors (72.9% on average), with "Change in value of outstanding CEO pay compared to TSR performance" in particular viewed as important by just 57.9% of non-investors (vs 80.6% among investors).

In your approach to assessing executive pay-for-performance alignment, how important are each of the following?

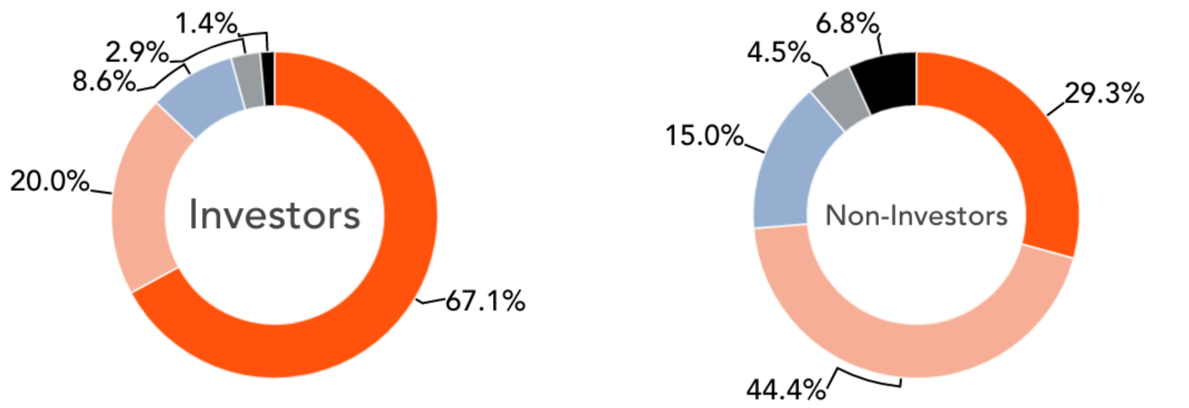
Change in Value of Outstanding CEO Pay Compared to TSR Performance



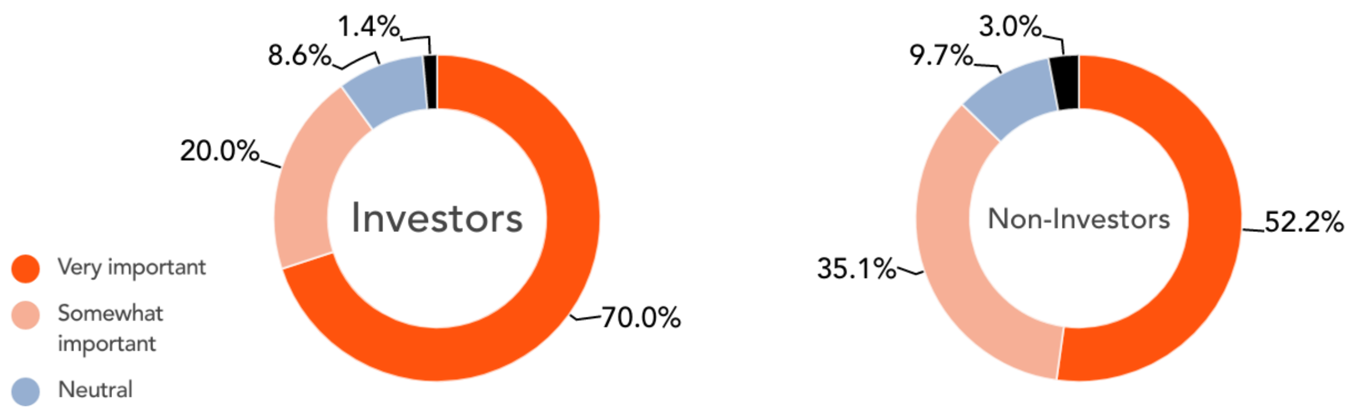
Relative CEO Pay in Light of Relative Company Size



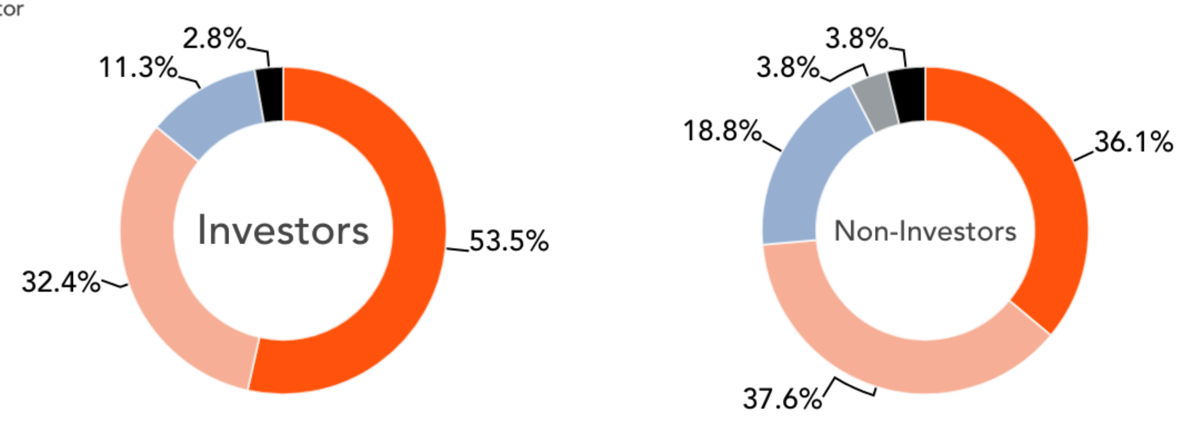
Incentive Payouts vs TSR Performance



Financial Results (excluding TSR)



Named Executive Officer Pay (aside from CEO)



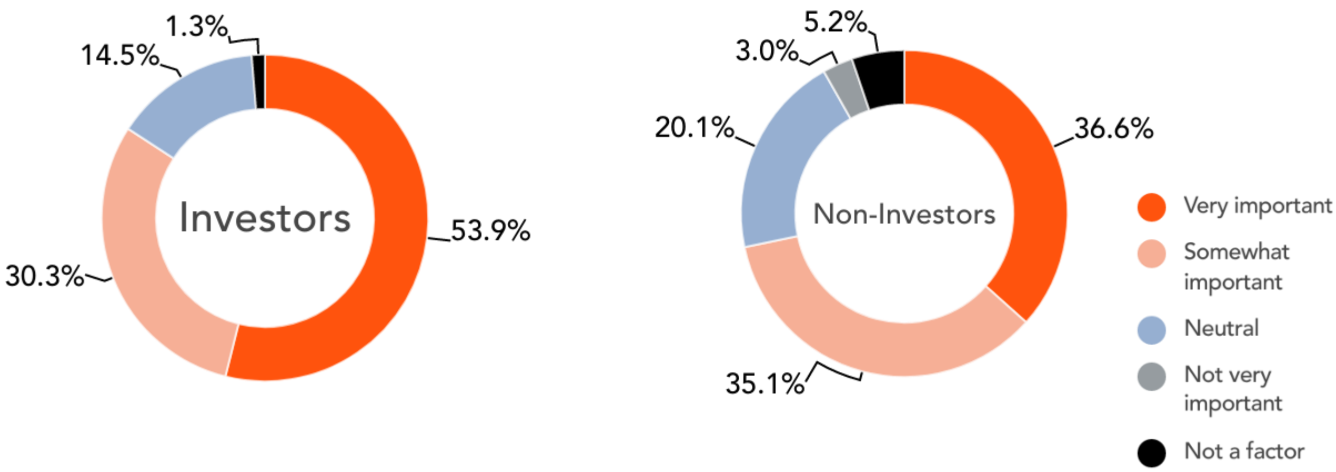
	Investor	Non-Investors
Avg. Total Responses	69	134
Total Comments	8	12

Mitigating Quantum Concerns

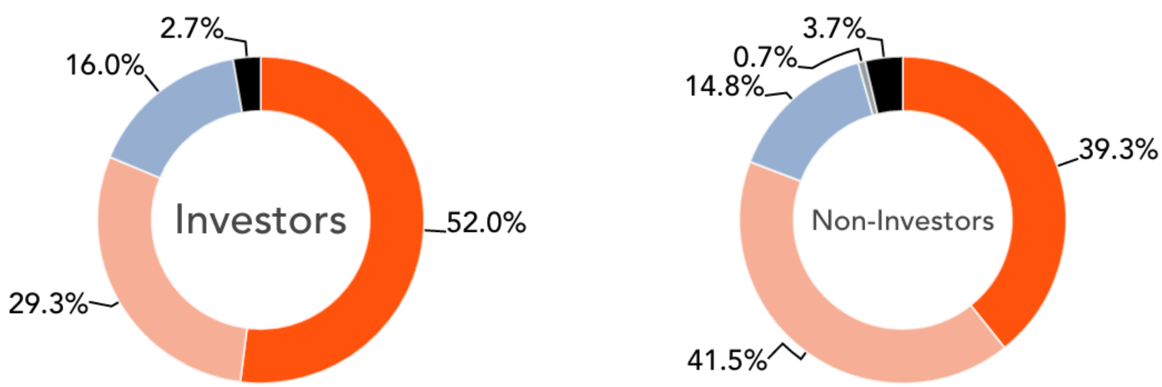
We also asked respondents their views on the importance of five structural and disclosure features in assuaging potential concerns with quantum. Amongst investors, “Disclosure of all targets for performance-based incentives” received the most “Very important” votes (64.5%, compared with 32.6% among non-investors), and “Total CEO pay is more heavily weighted on equity than cash” received the fewest “Very important” votes (39.5%, vs 32.8% among non-investors); the remaining three categories were all viewed as “Very important” by more than half of investors, in line with the overall average for this group (53.3%). By contrast, non-investors were more consistent across all categories, with “Disclosure of actual pay outcomes for short-term and long-term incentives” receiving the most support (39.3%, only slightly above the 34.9% average for all categories).

In your approach to assessing pay-for-performance alignment, how important are the following in assuaging concerns with quantum?

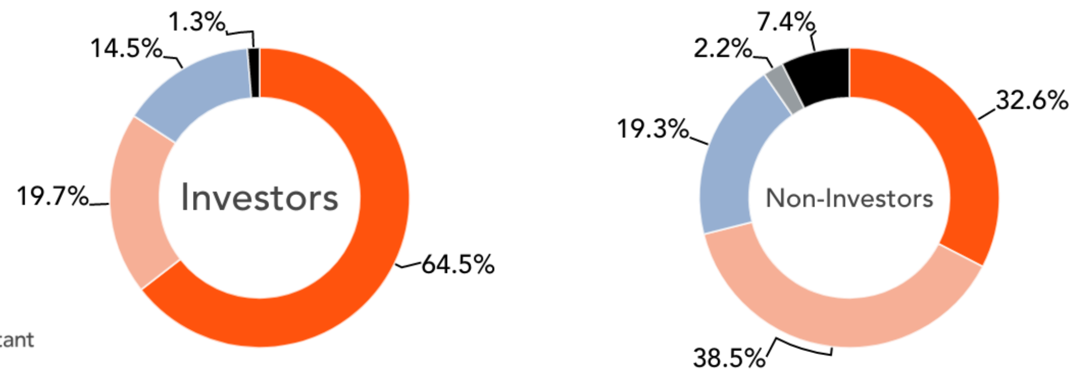
Maximum Payout Limits for Variable Incentives are Set and Disclosed



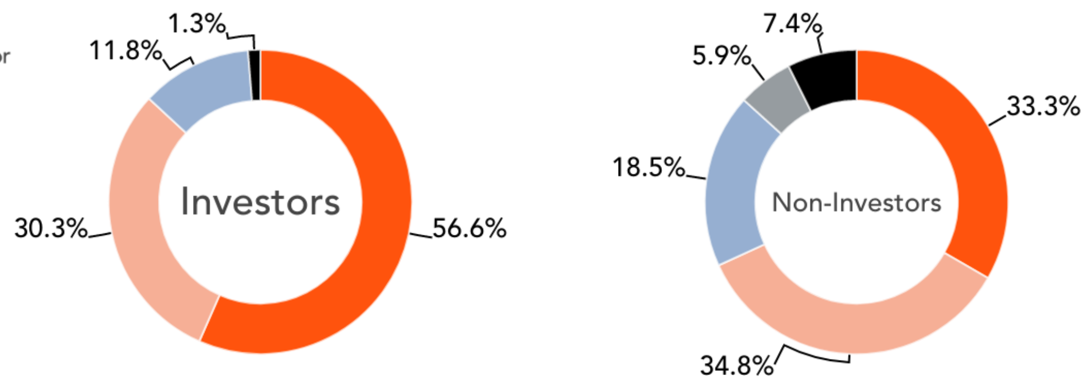
Disclosure of Actual Pay Outcomes for Short-Term and Long-Term Incentives



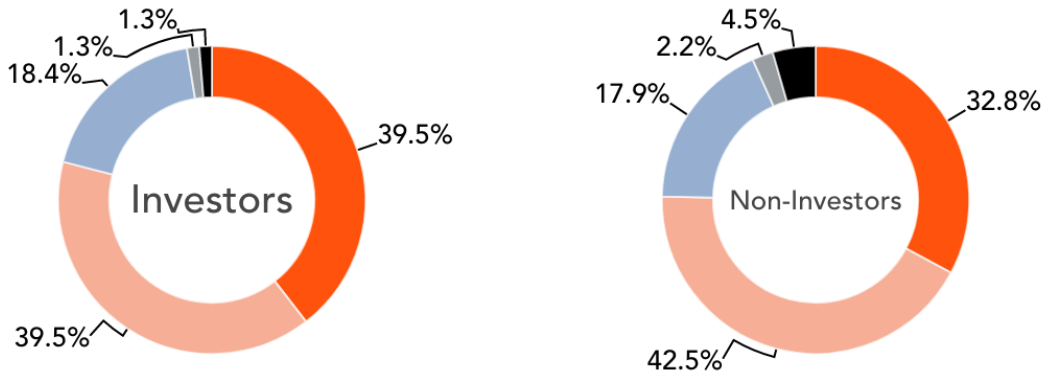
Disclosure of All Targets for Performance-Based Incentives



Vesting Period of Long-Term Incentives is ≥ 3 Years



Total CEO Pay is More Heavily Weighted on Equity than Cash



	Investor	Non-Investors
Total Responses	76	135
Total Comments	5	10

Thank You

Again, we sincerely thank everyone who took the time to provide informed and thoughtful input through our Policy Survey. Updates to our Benchmark Policy guidelines will be released in the November/December timeframe and will be accessible through our web site.

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