EQUILAR®

Voting Analytics

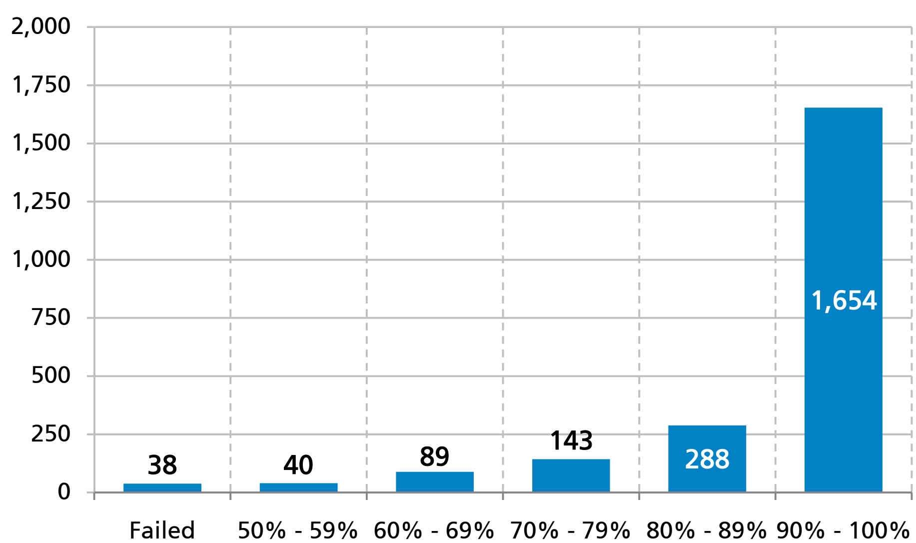
An Analysis of Voting Results and Performance at Russell 3000 Companies

Each year, public companies hold annual meetings for shareholders to approve various items: equity and performance incentive plans, a slate of directors, and now, executive compensation. Since the passage of the Dodd-Frank Act—the set of new SEC regulations that includes a provision requiring companies to provide shareholders with an advisory vote on executive compensation, more commonly known as say on pay—the results of annual meetings have drawn increased interest. For the first time, shareholders have the opportunity to indicate their specific approval of (or dissatisfaction with) a company's pay practices. With additional pressure from proxy-advisory firm recommendations, the new law has led many companies to increase their communication with shareholders and re-evaluate their compensation and corporate-governance practices.

Companies have mostly won approval from shareholders for their pay packages. As of June 30, 2011, only 38 companies in the Russell 3000 had failed their say-on-pay votes, and almost 75 percent of firms not only won their votes, but did so with 90 percent or higher approval. To gain a better understanding of the factors behind voting outcomes, Equilar compared voting results to a handful of key performance metrics. Our new Proxy Voting Analytics tool also allowed us to analyze voting results for equity incentive plans, offering a broader look at shareholder responses to compensation-related votes.

Russell 3000 Performance and Voting Results

Equilar analyzed voting results at 2,252 companies from the Russell 3000 that held their annual meetings between January 21 and June 30, 2011. On the whole, shareholders voted strongly in favor of current standards for executive pay; almost 75 percent of companies passed their say-on-pay votes with over 90 percent approval, while only 38 firms failed a vote. Only one company outside of the Russell 3000 failed its say-on-pay vote. The following chart shows the distribution of companies according to their say-on-pay approval rates.



As companies work to align pay with performance, they have increased their focus on performance-based incentives. In a recent study of CEO performance metrics at S&P 1500 companies, Equilar found that the most prevalent metric in short-term incentive plans was earnings (including both net income and earnings per share), while the most prevalent metric in long-term incentive plans was total shareholder return (TSR), followed by the aforementioned earnings measurement. Equilar compared these performance metrics, as well as CEO pay growth, to approval rates for say on pay.

The following table defines the performance quartiles for total shareholder return, earnings, and CEO pay growth at the companies analyzed.

Performance	1-Year TSR	3-Year TSR	3-Year Net Income Growth	2010 CEO Pay Growth
25th Percentile	4.6%	(11.5%)	(48.7%)	(4.7%)
Median	21.0%	(0.1%)	4.4%	20.2%
75th Percentile	45.7%	8.6%	74.2%	67.8%

Say-On-Pay Analysis

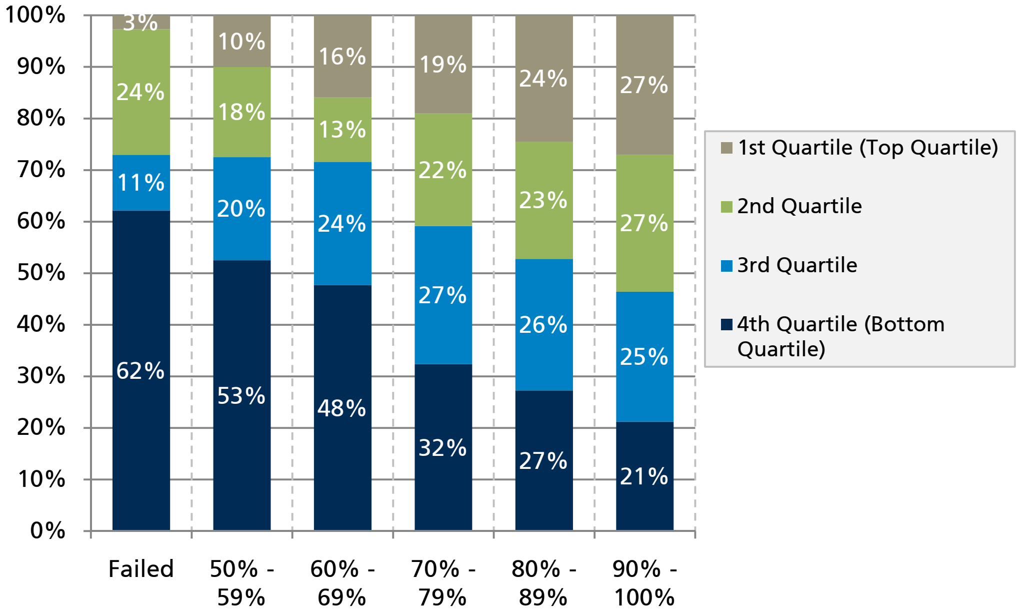
Using the benchmarks defined above, companies were divided into four groups (called quartiles) for each metric. Equilar analyzed the companies to determine the makeup of each voting bracket, through the amount of companies it contained from each quartile.

Total Shareholder Return

The prevalence of companies using total shareholder return as a performance metric has continued to increase over the past several years. It is now one of the most widely used metrics for determining the overall success of a company and the performance of its executives.

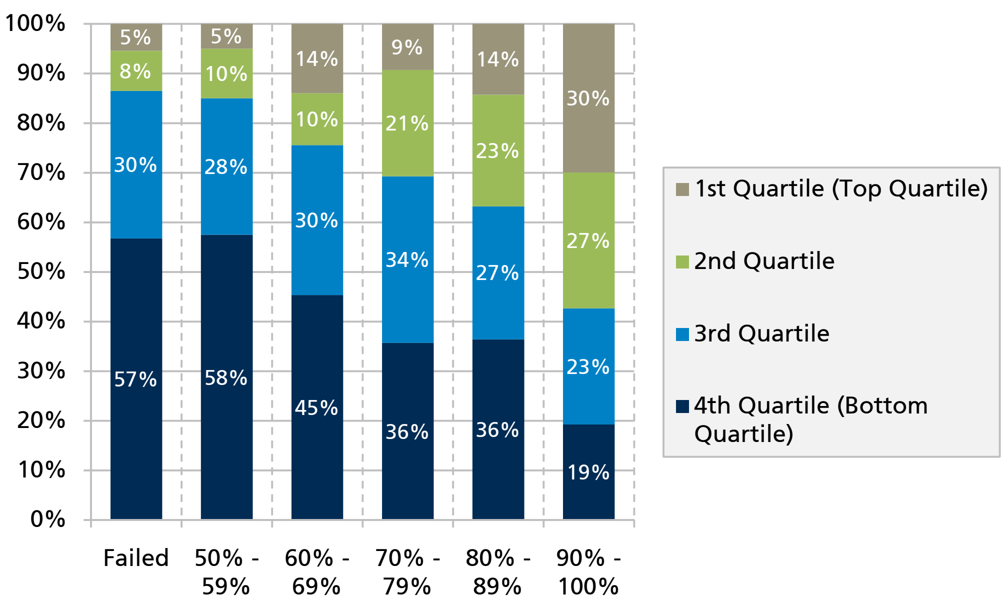
As one might expect, the number of companies with bottom-quartile performance in one-year TSR decreases as approval votes increase. It is interesting to note that among those companies receiving greater than 90 percent approval, over 20 percent still had a bottom-quartile TSR ranking.

The chart below shows the distribution of companies by performance that fall into each voting bracket for one-year total shareholder return.



While many are concerned about an overly short-term focus, shareholders are considering more than just one-year returns. Consistent with the chart above, there is a steady decline in lower-quartile companies (by voting bracket) when looking at three-year total return. The number of companies that achieved above-median returns over the previous three years increased from 14 percent among those that failed their votes to 60 percent among companies receiving at least 90 percent of the vote. Contrasted with the one-year chart, the approval votes more consistently align with the three-year returns.

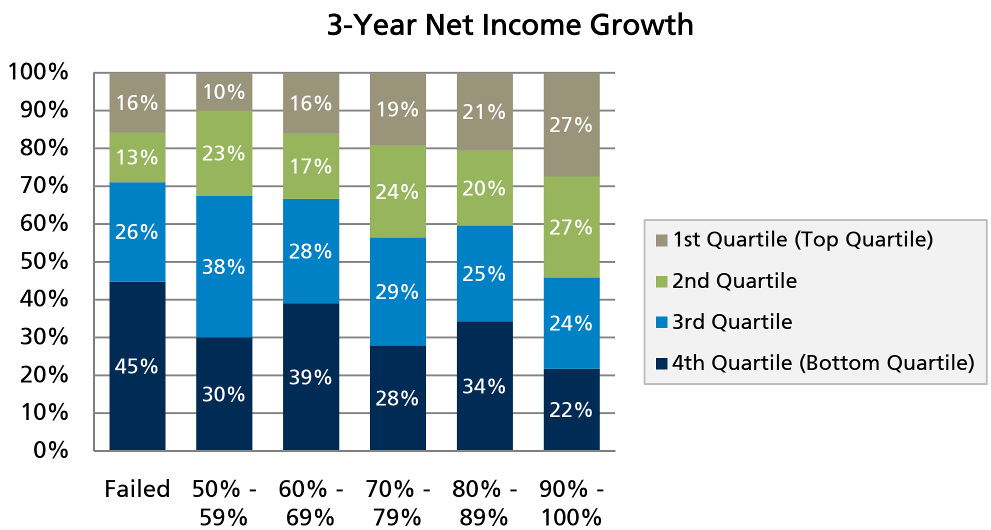
The chart below shows the distribution of companies that fall into each voting bracket for three-year total shareholder return.



Net Income Growth

As mentioned above, earnings have historically been the most prevalent metric in incentive plans for S&P 1500 CEOs for all performance periods, driving many of the changes in pay. In its analysis of net income growth, Equilar compared voting results against one-year and three-year growth. In line with the results for total shareholder return, there was a decline in lower-quartile companies as the approval percentages increased. The findings also showed a greater focus on long-term results. The percentage of companies with below-median performance decreased from 71 percent to 46 percent when measured against three-year net income growth. When measured against one-year net income growth, the percentage of below-median companies decreased from 58 percent to 50 percent.

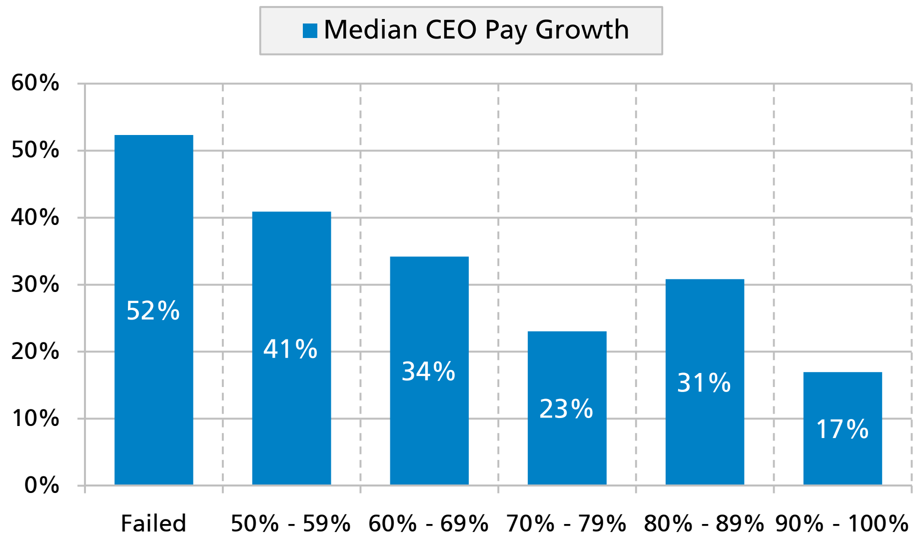
The chart below shows the distribution of companies by performance that fall into each voting bracket, by three-year net income growth.



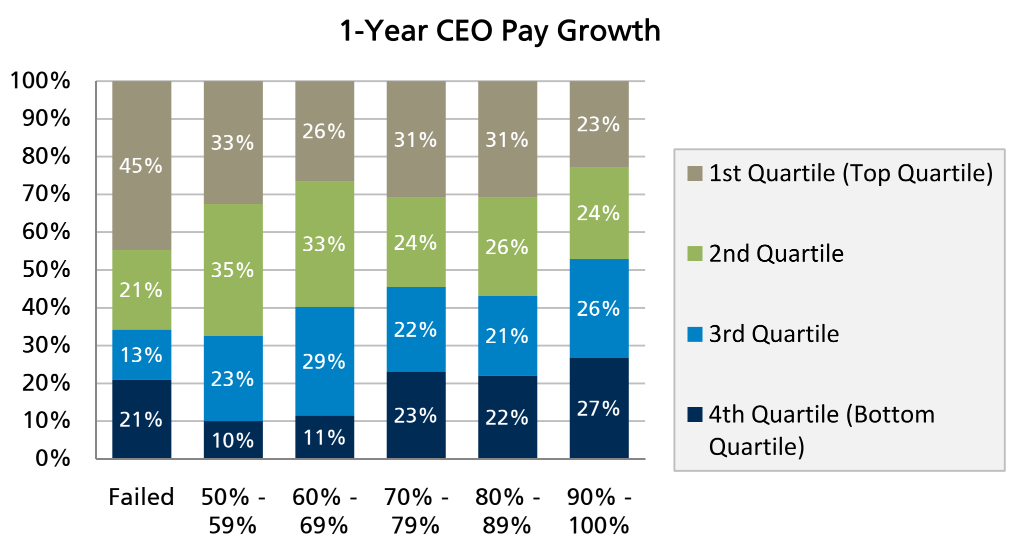
CEO Pay Growth

A major concern for companies undergoing say on pay was the recommendation practices of proxy-advisory firms. Equilar utilized a scope of analysis similar to that of many advisory firms, which focus heavily on one-year growth in pay. We found that one-year growth for failed companies far outpaced the pay for CEOs at companies that received 90 percent or higher approval of their compensation. Based on this analysis, it appears that the companies with the biggest jumps in pay over the past year were more susceptible to negative votes than those with smaller changes.

The chart below shows the median CEO pay growth by voting bracket.



The chart below shows the distribution of companies by one-year CEO pay growth in each quartile, sorted by voting bracket.

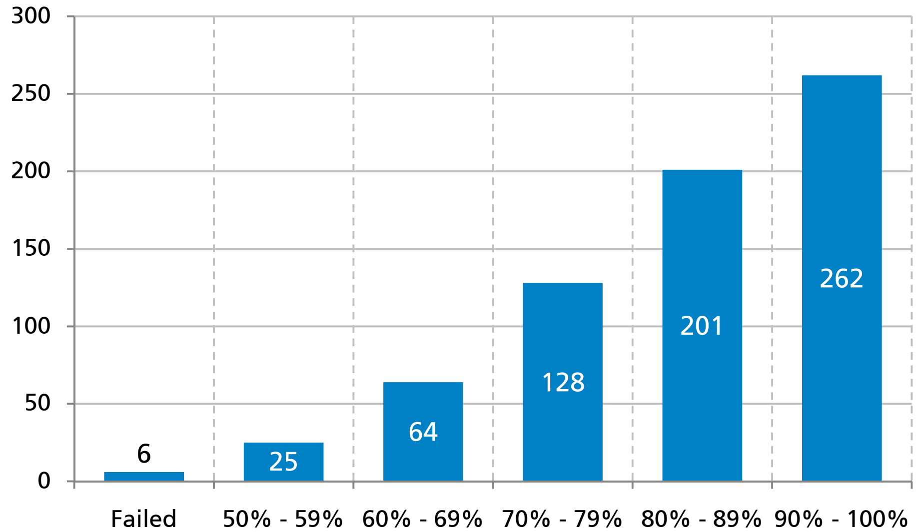


Equity Incentive Plans

Say on pay is not the only compensation-related matter on which shareholders are asked to weigh in. Shareholders are also regularly asked to approve new or amended equity incentive plans. These plans are used to grant shares to executives, key employees, and directors. Using the new Proxy Voting Analytics tool, Equilar conducted a study of voting results for these plans.

Of the 2,252 companies included in this analysis, 686 presented equity incentive plans that were subject to shareholder approval. Over half of these plans were passed with 86 percent or more of the vote, while only six plans failed. As they did for say on pay, shareholders showed strong support for companies' requests for new or additional shares.

The following chart shows the distribution of equity incentive plans by voting bracket.



For more information regarding Equilar's new Proxy Voting Analytics tool, please contact your Account Manager or send an email to info@equilar.com.