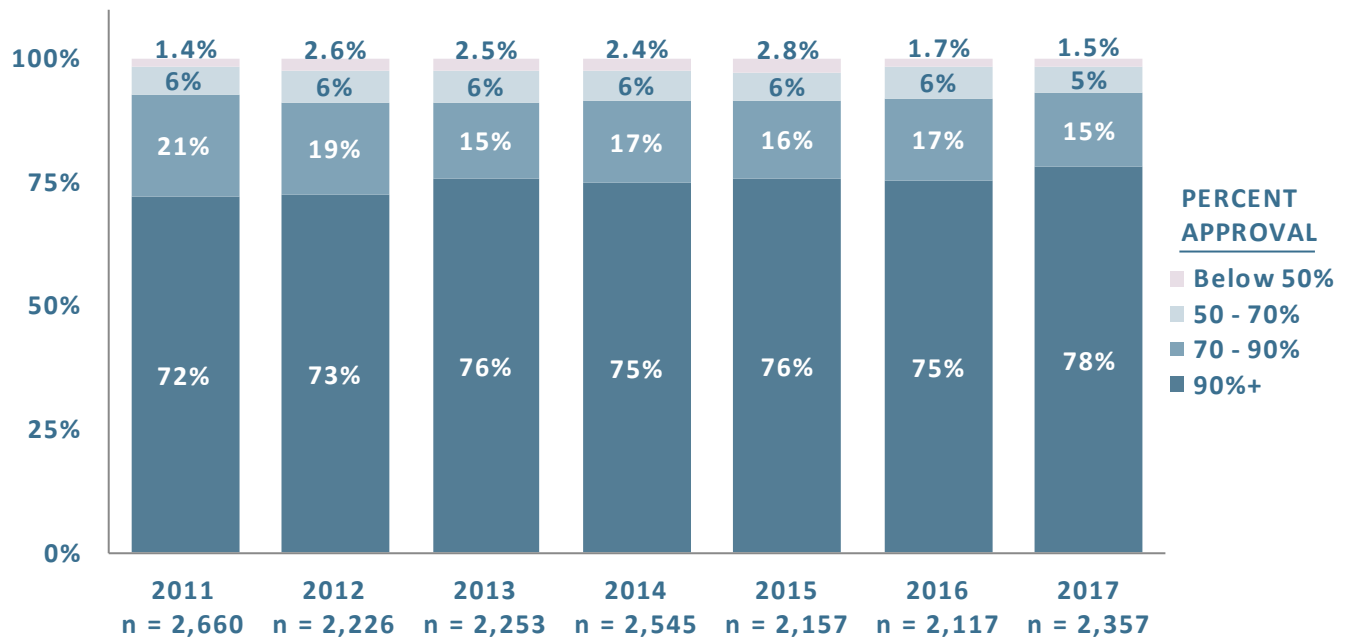


2017 SAY ON PAY RESULTS

END OF YEAR REPORT: REVISITING PREDICTIONS

Breakdown of Say on Pay Vote Results

35 Russell 3000 companies (1.5%) failed Say on Pay in 2017. Four companies failed since our last report—Bofi Holding, Oracle, United Natural Foods, and Western Digital

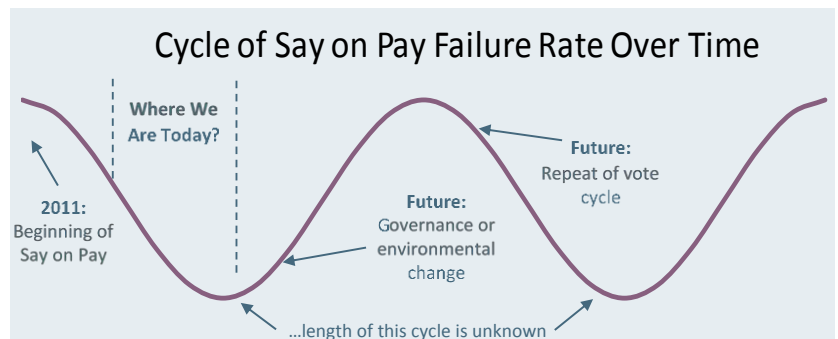


Below we revisit and assess the outcomes of the predications made by our team prior to the start of the 2017 Say on Pay season:

Prediction 1

The 2017 Say on Pay failure rate will fall to its lowest level since voting began in 2011

We expected that the continued homogenization of pay practices, increased communication between companies and stakeholders, and other less tangible drivers that led to a decrease in the 2016 failure rate would continue to push the failure rate lower in 2017. **In 2017, the failure rate continued its decline, falling to 1.5%**; however, it did not fall below the 2011 failure rate of 1.4%.



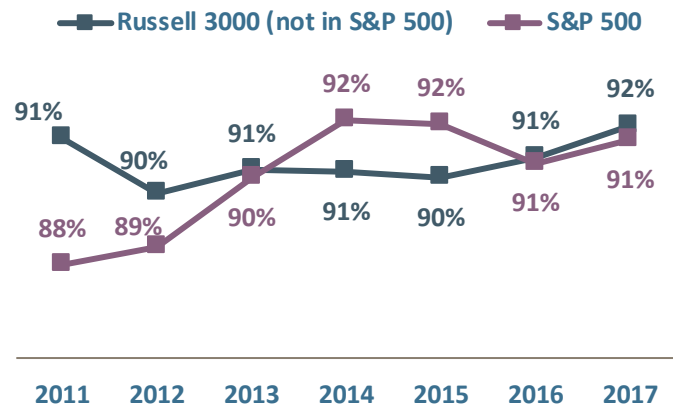
Our September 2017 thought piece explained the cyclical nature of Say on Pay voting. We continue to believe that 2017 results support the notion of a cyclical voting pattern—which becomes disrupted as investor and/ or regulatory pressures evolve.

Prediction 2

Smaller companies will continue to fail Say on Pay more frequently than larger companies

Historical vote results and ISS recommendations suggested a disconnect between large (S&P 500) and small company (Russell 3000 excluding the S&P 500) Say on Pay support. We previously hypothesized that this disconnect is attributable to the level of resources dedicated to ensuring a passing vote. **However, in 2017, small and large companies had an equal failure rate of 1.5%, though small companies had an ISS “Against” recommendation rate that was 2.9% higher than that of large companies.**

Average Say on Pay Vote Results

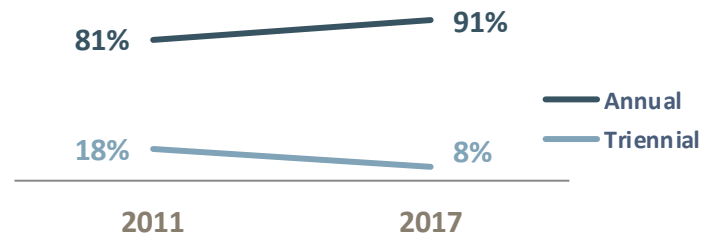


Prediction 3

Shareholders will support an annual Say on Pay vote at over 90% of companies holding frequency votes in 2017

In 2017, shareholders supported an annual Say on Pay vote at 91% of companies holding frequency votes. Holding an annual Say on Pay vote provides companies with an easy “good governance” practice that carries few risks. As such, management recommendations for an annual Say on Pay vote rose from 54% in 2013 to 88% in 2017. Additionally, proxy advisors carry a preference for annual voting, as it gives investors additional opportunities to communicate with boards and an additional avenue through which boards are accountable to investors.

Say on Pay Frequency Vote Results



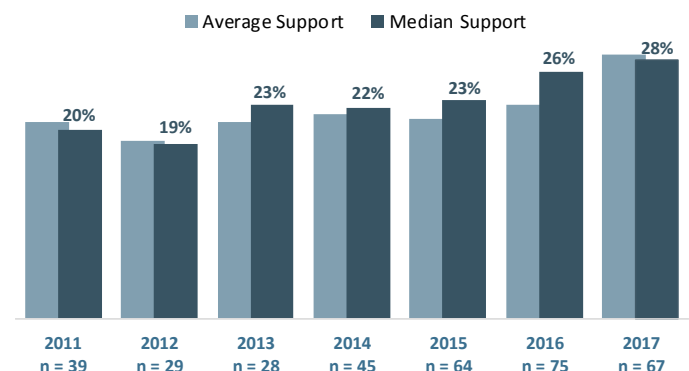
Note: 0.6% of companies in 2011 and 0.4% in 2017 voted to hold a biennial Say on Pay vote.

Prediction 4

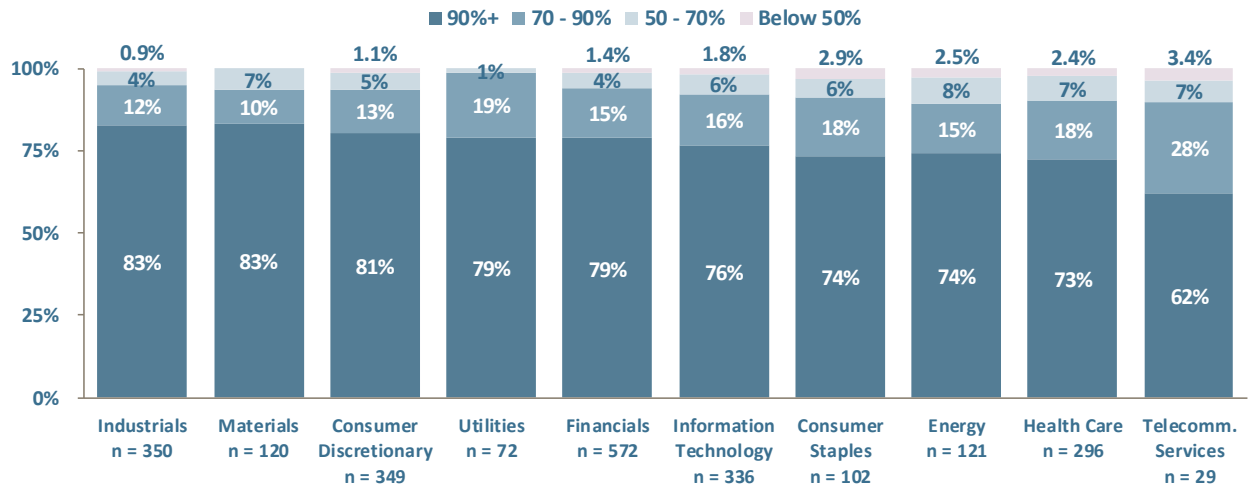
Median support for environmental proposals will be above 30% in 2017

Shareholder interest in environmental, social, and governance (“ESG”) issues rose throughout 2016, which led the highest median vote support on environmental proposals since 2011. **The trend continued through 2017, though median vote support on environmental proposals fell just short of our predicted level. However, median support did rise to 28%, replacing 2016 as the year with the highest level of support since voting began in 2011.** Further, four environmental proposals received over 50% support, which was higher than the number approved during the previous six years combined.

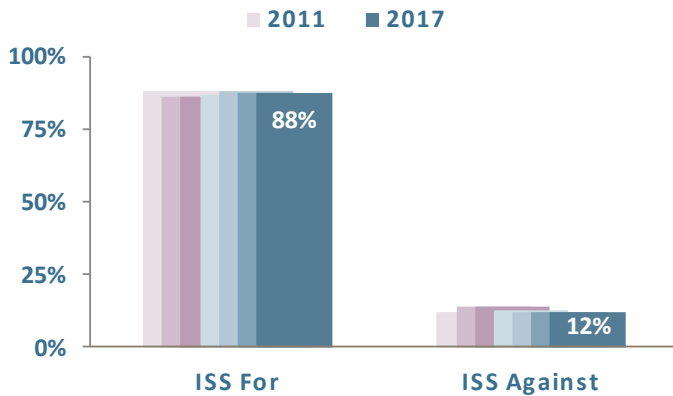
Environmental Proposal Median Vote Results



2017 Russell 3000 Say on Pay Results by GICS Sector

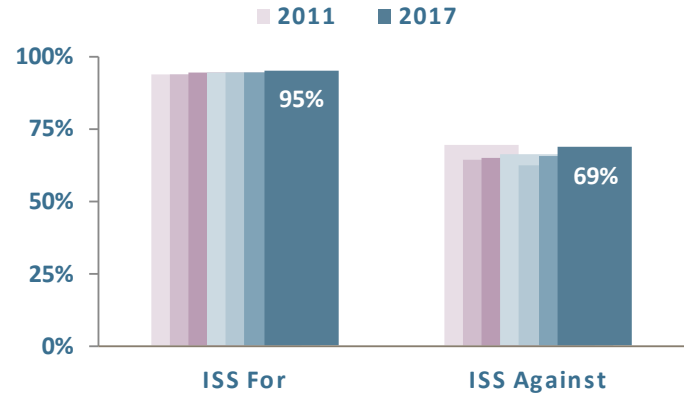


ISS Recommendation Breakdown



- ISS recommended "Against" 12% of the companies it assessed in 2017—the same "Against" recommendation rate as in 2015 and 2016

ISS Impact on Vote Results



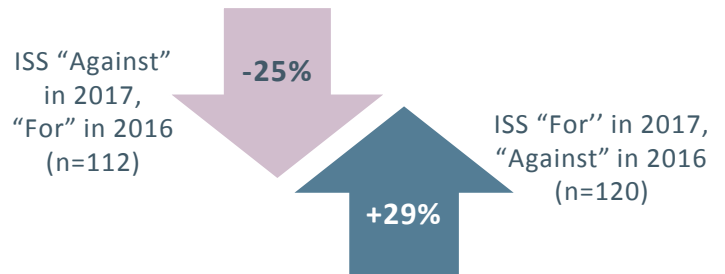
- Shareholder support was 26% lower at companies that received an ISS "Against" recommendation—the second-smallest difference since voting began in 2011

Year over Year ISS Recommendation

		2017 Rec.	
		"For"	"Against"
2016 Rec.	"For"	83% of companies (n=1,561)	6% of companies (n=112)
	"Against"	6% of companies (n=120)	5% of companies (n=88)

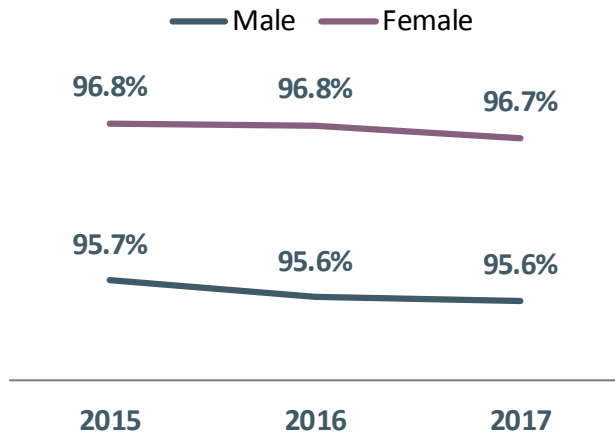
- 232 companies (12.3%) received both an ISS "For" and "Against" recommendation during the last two years

ISS Impact on Vote Results

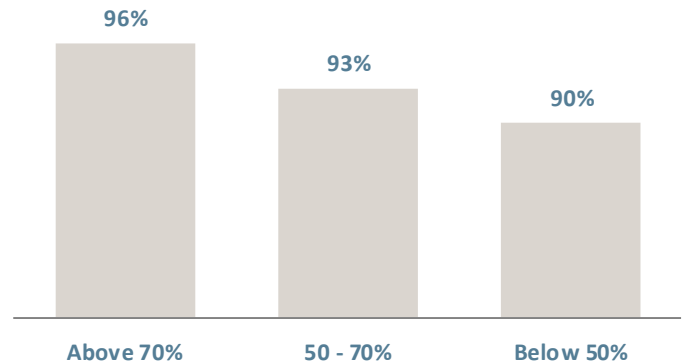


- A change in an ISS recommendation resulted in a 25%-30% difference in Say on Pay support over the past two years

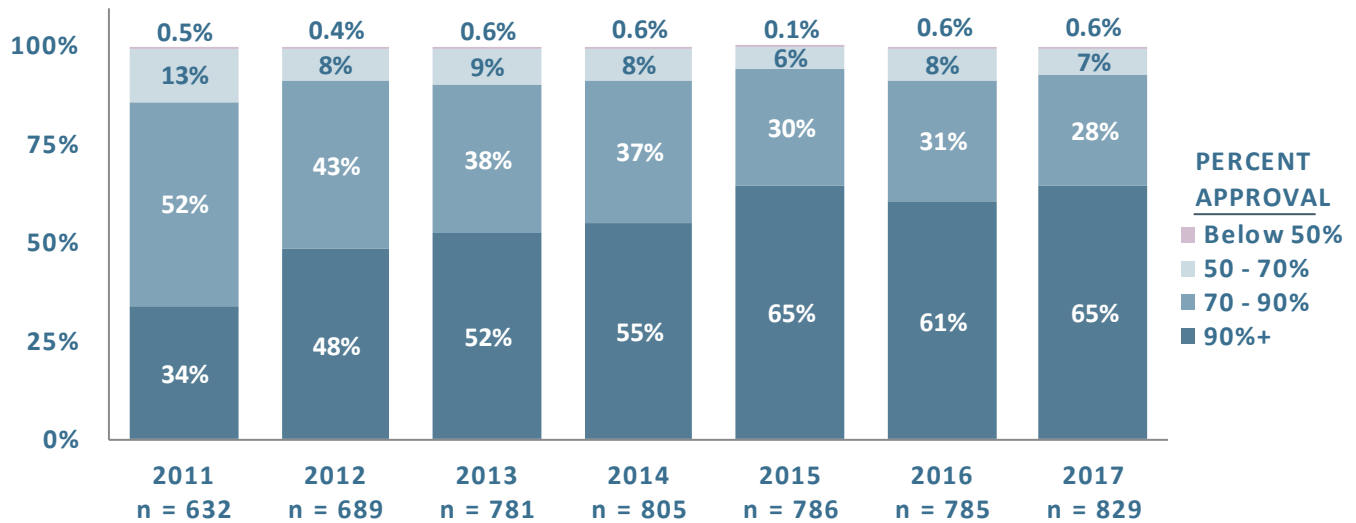
Average Director Support



Impact of Previous Year's Say on Pay Results on Director Elections



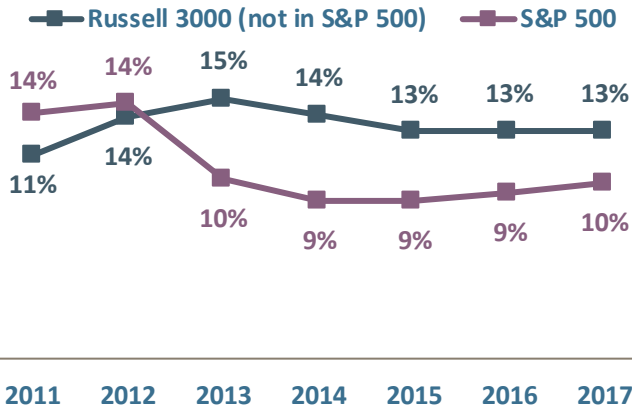
Breakdown of Equity Plan Proposal Votes



Governance Observations

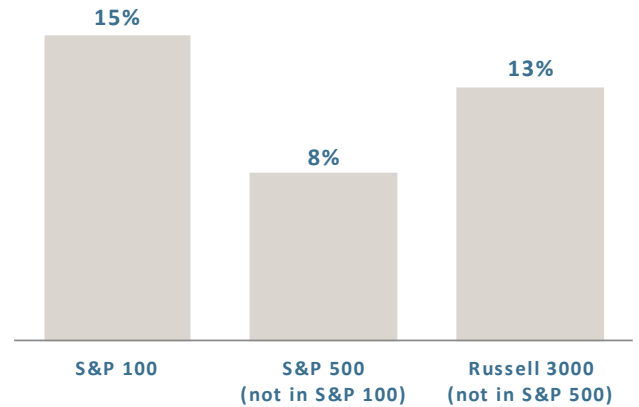
- In 2017, average director nominee election results remained near 96%, consistent with average director support from the previous four years. Additionally, a relationship exists between director nominee vote results and Say on Pay support—average vote support for director nominees is 6% higher at companies that received Say on Pay support above 70% in the prior year than companies that received less than 50% support
- Female directors nominees received 1% higher average vote support than male director nominees in each of the last three years. Further, ISS recommended “For” female nominees at a rate that was 4% higher than male nominees in 2016 and 2017
- Equity plan proposals received support above 90% in 65% of votes held in 2017, which was roughly double the rate seen in 2011. This rate also matches the highest observed rate, which was achieved in 2015

ISS "Against" Recommendations



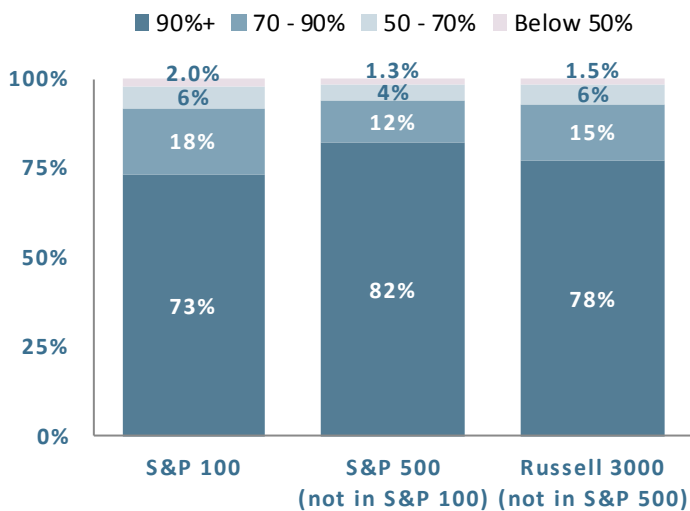
• In each of the last five years, ISS has recommended "Against" small companies (Russell 3000) more often than large companies (S&P 500)...

ISS "Against" Recommendations

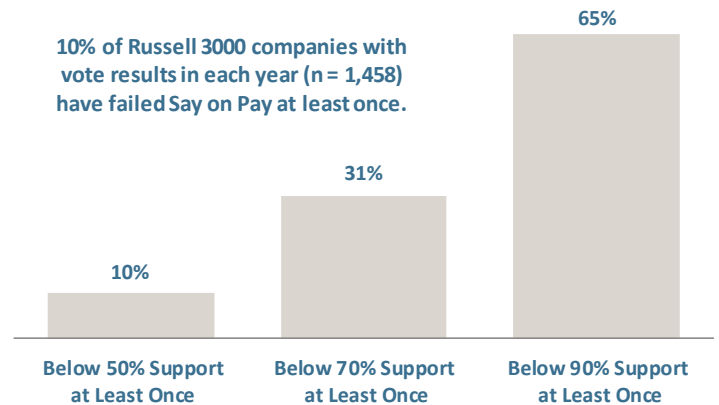


• ... but within the S&P 500 index, ISS recommended "Against" S&P 100 companies twice as often as it did for the other constituents of the S&P 500

2017 Say on Pay Vote by Index



Likelihood of a Low Say on Pay Vote



• Since 2011, nearly two-thirds of companies have received at least one vote result below 90%, and almost one-third have received a result below 70%

A Look Ahead to 2018

- The newly required CEO Pay Ratio disclosure will be a prominent governance topic during the upcoming year, and we anticipate that the CEO Pay Ratio will influence Say on Pay voting
- Environmental, social, and governance (ESG) proposals will continue to gain shareholder support. Large investors, such as BlackRock, have emphasized the importance of ESG topics in their investment strategy
- In particular, we believe that the topic of board diversity will continue to grow in prominence, especially given the fact that State Street Global Advisors and other investment firms advocate for increased gender parity and racial representation
- We believe that the 2018 Say on Pay failure rate will remain near the 2017 historic low. However, a changing regulatory environment and potential market volatility may lead to an increased failure rate starting in 2019

Likely Causes of Votes Under 50% in 2017

2017 Failed Say on Pay Vote Results¹

Russell 3000, n=35

Company	Say on Pay Vote Results			Number of Failures	Likely Causes of Votes Under 50%						
	2017 ▼	2016	YOY		Pay and Performance Relation	Problematic Pay Practices	Rigor of Performance Goals	Shareholder Outreach and Disclosure	Non-Performance Based Equity	Special Awards/ Mega-Grants	Benchmarking Practices
New York Community Bancorp, Inc.	50%	-	-	2	X						X
Hospitality Properties Trust	48%	61%	-13%	1		X		X			
Oracle Corp.	48%	45%	2%	6	X	X				X	
Sanchez Energy Corp.	47%	56%	-8%	1	X	X		X	X		
Universal Insurance Holdings, Inc.	47%	-	-	1		X					
Senior Housing Properties Trust	46%	47%	-1%	2		X		X			
Bofl Holding, Inc.	46%	-	-	1	X	X					
Microsemi Corp.	45%	83%	-37%	1	X	X	X			X	
Argan, Inc.	45%	64%	-19%	2		X		X			
Bed Bath & Beyond, Inc.	44%	23%	21%	3	X			X			
Nabors Industries Ltd.	44%	36%	8%	6			X	X			
Spectrum Pharmaceuticals, Inc.	44%	59%	-16%	4	X	X		X	X		
Sprouts Farmers Markets, Inc.	43%	72%	-29%	1	X	X				X	
Whitestone REIT	43%	-	-	1		X		X	X		
SL Green Realty Corp.	43%	55%	-12%	1	X	X		X		X	X
SeaWorld Entertainment, Inc.	42%	82%	-39%	1	X	X			X		
Tutor Perini Corp.	42%	42%	0%	7	X		X				X
Medifast, Inc.	42%	-	-	2		X	X			X	
Western Digital Corp.	42%	93%	-51%	1	X	X	X				
Endologix, Inc.	40%	85%	-45%	1	X						
American Axle & Manufacturing Holdings	39%	97%	-58%	1	X		X				
Immunomedics, Inc.	38%	-	-	1		X					
FleetCor Technologies, Inc.	37%	-	-	2	X		X		X		
Virtusa Corp.	37%	99%	-62%	1		X	X			X	X
PHH Corp.	36%	71%	-34%	1	X					X	
Nuance Communications, Inc.	33%	33%	1%	4	X	X	X		X	X	
Atlas Air Worldwide Holdings, Inc.	32%	50%	-17%	3		X		X			
ConocoPhillips	32%	83%	-51%	1	X	X					
CytRx Corp.	31%	59%	-28%	1	X	X	X				
IMAX Corp.	30%	-	-	1	X	X			X		
McKesson Corp.	26%	80%	-54%	2	X	X					
Rockwell Medical, Inc.	26%	-	-	1	X	X					
NII Holdings, Inc.	23%	-	-	1	X			X			
United Natural Foods, Inc.	23%	94%	-71%	1	X	X		X		X	
Mylan NV	17%	65%	-48%	2	X	X					

¹ As of December 31, 2017.

Source: Semler Brossy data and analysis; Fund Votes LLC; ISS Voting Analytics.

FOR MORE INFORMATION, VISIT US AT SEMLERBROSSY.COM

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