

TO: ISS
FROM: Ed Durkin, United Brotherhood of Carpenters
RE: Comment on ISS' Recommendation on Say-on-Pay Vote Frequency Proposals
DATE: November 11, 2010

On behalf of the United Brotherhood of Carpenters ("UBC") and its pension funds, I appreciate this opportunity to comment on ISS' proposed default annual vote option on the say-on-pay vote frequency issue that will be before shareholders for the first time this coming proxy season. We urge ISS to reconsider its recommended annual default voting guideline in favor of a triennial vote default voting guideline so as to advance the goal of improving executive compensation policies and practices.

The UBC pension funds have been active advancing executive compensation reforms for many years. We have engaged hundreds of companies through informal dialogue and formal proposals addressing both narrow compensation issues, such as option-expensing, performance-vested long-term compensation, and "golden parachutes," as well as broader issues relating to the general composition of executive compensation plans through our "CommonSense" and "Pay-for-Superior Performance" proposals. Presently, we are engaging approximately one hundred companies on our "Core Principles and Practices" analysis of their plans. We have found these efforts to be effective mechanisms for engaging companies in meaningful dialogue and prompting pay practice and disclosure improvements.

Our pay activism experience informs our position on the say-on-pay vote frequency issue. As long-term investors, the UBC pension funds were not advocates of an annual say-on-pay vote because of our concern that it would inhibit developing investor efforts and initiatives to improve executive compensation practices and policies. However, we have endeavored to improve the say-on-pay vote by advocating that the vote be required on a triennial basis and that investors be provided an opportunity to register a vote on multiple aspects of a plan (annual incentive pay, long-term incentive pay, and post-employment compensation) in addition to an overall FOR or AG AINST vote. Further, we advocated for a broad exemption for smaller companies so as to allow shareholders to more effectively focus their resources on those companies that truly impact market executive compensation practice. And while the Dodd-Frank Act established the say-on-pay vote, significant issues regarding the extent of covered companies, the frequency of say-on-pay votes, and the form of the vote will develop through regulation and private-ordering.

It is our concern that ISS' proposed default recommendation for an annual say-on-pay vote does not advance the most effective formulation of the say-on-pay vote, in that it promotes the quantity of say-on-pay votes over the quality of such votes. The ISS overview piece states that the say-on-pay vote "is at its essence a communication vehicle, and communication is most useful when it is received in a consistent manner." We believe that the "most useful" communication vehicle would be an informed vote based on thorough and comprehensive pay plan analysis. An annual vote at thousands of companies would challenge the ability of large

institutional investors to undertake a thorough analysis of portfolio companies' pay plans or an appropriate review of the vote recommendations of their advisory firms. The quality and thoroughness of the pay plan analysis supporting say-on-pay votes, not their frequency, will determine the usefulness of the vote in improving executive compensation.

ISS further buttresses its support for an annual default on the vote frequency issue stating that "it provides the highest level of accountability and direct communication by enabling the MSOP vote to correspond to the information presented in the accompanying proxy statement for the annual shareholders' meeting." It should be noted that by the time the shareholders cast their vote at a typical Spring annual meeting, a company's compensation committee will have already set the performance metrics and performance targets for the company's incentive plans in order to secure tax deductibility of earned compensation under Regulation 162(m). With annual voting, shareholders will be voting on the past year's pay decisions while the critical pay-for-performance decisions that will determine pay outcomes in the current year's plan have already been set.

ISS' final argument for annual say-on-pay vote is an argument against triennial or biennial voting that reflects a misunderstanding of the potential value of multi-year votes. ISS argues that with a triennial vote, "a company would not know whether the shareholder vote references the compensation year being reported or a previous year." Under a triennial vote arrangement, shareholders would be voting on the compensation plan outcomes of the year reported, but they would be doing so with the benefit of having seen how key components of the plan, most importantly the long-term compensation component, have worked. Companies would inevitably adapt their CD&A disclosure to the triennial vote timeline to illustrate how the pay-for-performance features of the plan are determining pay outcomes since the initial or previous say-on-pay vote. It is important to recognize that whether the say-on-pay votes are cast on an annual or triennial basis, the simple use of a "FOR" or "AGAINST" vote is a serious potential flaw that will severely limit the communicative value of the vote. However, under a triennial vote timeline, companies may be amenable (or could be urged) to providing a multi-faceted vote opportunity that would allow shareholders to register a vote on the overall plan as well as key plan components (annual incentive compensation, long-term incentive compensation, and post-employment pay) so as to enhance the communicative value of the vote.

A further concern with an annual vote is that it will diminish the value and effectiveness of complementary forms of executive compensation advocacy. Companies whose plans receive large favorable votes might be less inclined to engage shareholders in dialogue on identified pay deficiencies. Annual votes might detract from the vote support for and the effectiveness of executive compensation shareholder proposals that address serious plan shortcomings. The blending of a broad annual say-on-pay vote with periodic incentive and equity plan votes and executive compensation shareholder proposal votes has the potential to create more confusion than clarity on pay issues.

Our view is that a periodic say-on-pay vote could be a valuable part of a complementary set of advocacy tools that include company-investor dialogue, shareholder proposals, equity and incentive plan votes, and, if warranted, votes AGAINST director nominees. The ISS proposed annual default voting guideline on say-on-pay frequency votes may undermine the development of a thoughtful and effective executive compensation advocacy system. We urge ISS to amend its guideline to provide a preference for a triennial say-on-pay vote. Exceptions from a triennial vote default could be made for companies or industry groups, such as financial services companies, at which an annual vote is believed to be a more effective alternative to addressing compensation excesses or pay-for-performance shortcomings. While it may be counter-intuitive for a proxy advisor firm to suggest fewer shareholder vote opportunities, in this instance, less is more. Less frequent say-on-pay votes will allow for more comprehensive and thorough plan analysis, more informed voting, more effective advocacy, and ultimately more effective executive compensation reform.