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Institutional Shareholder Services Inc.
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Ladies and Gentlemen:

Thank you for offering Pearl Meyer the opportunity to comment on the proposed policy changes that Institutional Shareholder Services Inc. (ISS) is considering for 2019 (the "Proposed Policy"). As a leading independent executive compensation consulting firm, we share your strong interest in developing and promoting sound corporate governance principles as they relate to executive compensation.

Our brief comments are focused on ISS' proposed amendments to the pay-for-performance quantitative screen. For the 2018 proxy season, ISS had introduced an additional modifier, the Financial Performance Assessment (FPA) as part of its pay-for-performance screen. The FPA was used as a secondary screen that provided an assessment of company performance currently based on unadjusted Generally Accepted Accounting Principles (GAAP) accounting data. For 2019, ISS proposes to modify the FPA methodology to use Economic Value Added (EVA) metrics in place of unadjusted GAAP metrics. "EVA Spread," "EVA Margin," and "EVA Momentum" will replace Return on Assets (ROA), Return on Equity (ROE), Return on Invested Capital (ROIC), Earnings Before Interest, Tax, Depreciation, and Amortization (EBITDA) growth, and cash flow growth.

We understand that these changes are being made because ISS believes that using EVA measures for the FPA creates a more reliable and accurate view of company performance. ISS also believes that this change will simplify the FPA approach as each EVA metric will be weighted equally and the weightings will be the same for all companies in all industries. This is in contrast with the current FPA methodology where GAAP measures and weightings vary by four-digit Global Industry Classification Standard (GICS) industry group and not all industries use all available metrics.

ISS is specifically seeking feedback on the following:

- Under this proposed update, the framework of the primary ISS pay-for-performance model methodology is unchanged and will continue to use Total Shareholder Return (TSR) as its main performance metric. Does your organization agree with that approach? If not, please explain.
- If the existing FPA screen performance measures are replaced with EVA-based measures, would you prefer that ISS continue to display GAAP performance data for informational purposes?

TSR Should Continue to be Used as the Main Performance Methodology

The Proposed Policy does not seek input on the merits of substituting EVA methodology for GAAP accounting measures. However, we would be remiss if we did not point out the obvious: as compensation consultants on thousands of incentive plans over our tenure, very few companies have actually ever implemented EVA as a measure in their compensation performance plans.

The Proposed Policy asserts that “EVA provides a standardized view of economic performance, versus accounting results, by applying a series of uniform, rules-based adjustments to financial statement data. Those adjustments improve comparability of companies across different industries. They allow for comparisons of firms with different operating models and/or capital structures as well as companies at different points in their business cycles.”

We do not believe that a standardized view of economic performance is useful for purposes of assessing the alignment of CEO pay and performance. In our experience, institutional investors have never been shy about communicating to companies how they intend to evaluate performance and EVA very rarely comes into the conversation. In fact, even where EVA is embraced by a company, conversations with institutional investors very often revert to growth, return, and profitability performance.

We believe EVA to be a shortcut that doesn’t consider nuance. A better methodology would tailor the performance lens based on sector-specific, cycle-specific, stage-specific, and even company-specific factors. If EVA actually reflected these dimensions, we would see EVA more widely embraced across sectors.

For example, it would be inappropriate to compare EVA between two comparable organizations where one is engaged in an acquisition strategy or has embarked upon a large capital project. Furthermore, cost of capital is a function of balance sheet management. Therefore, a company that has an acquisition will appear worse from an EVA standpoint in the short term (e.g., three years) as compared to a company that buys back stock.

As another example of nuance, comparative performance becomes very difficult when EVA is close to breakeven (zero) in a given period. Very small changes in growth, profitability, and/or capital employed can have a very large impact on EVA metrics, driving positive metric results to negative and vice versa. These large swings too often provide a signal in conflict with sound long-term management. Again, company-specific context is critical.

For these reasons and others (including complexity), EVA is not market practice in designing incentive compensation plans. While we agree that EVA and the concept of economic profitability is important to long-range planning and decision-making, we do not see it as a good, broad-based yardstick for assessing CEO pay-for-performance.

While TSR is not perfect, it truly is the only common performance denominator for publicly traded companies. It has become rather institutionalized and accepted as a performance

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measure that is consistently tied to compensation payouts, and as such should continue to be the driving force in ISS' pay-for-performance methodology.

Existing FPA/GAAP Performance Measures Should Continue to be Displayed

We are also hopeful that ISS continues to appreciate the complexity of companies trying to properly consider or align themselves with ISS standards, given the timing of the updated policy release. By way of example, compensation targets and equity grants are normally set in the first quarter of the year for fiscal filers, but ISS does not typically issue the new policy guidelines until November. If companies were to understand earlier in the year the new alignment test that will be applied for the following year, directors would be able to make informed decisions (or at least consider the impact of the new EVA factors) with the then-applicable ISS alignment test in mind. Compensation decisions with respect to this year were made at a time when directors only had knowledge of the existing ISS test using FPA/GAAP performance measures. As such, it would be important for investors to continue to see the FPA/GAAP alignment for this year, even if the FPA will convert to EVA measures going forward.

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Thank you very much for soliciting our comments on ISS' Proposed Policy. Please feel free to contact me (david.swinford@pearlmeyer.com), or Deb Lifshey (deborah.lifshey@pearlmeyer.com) if you have any questions or would like to review these comments.

Sincerely,
PEARL MEYER & PARTNERS, LLC

By: Dave Swinford

David Swinford
President and CEO