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# Evaluating Pay for Performance Alignment

## Implementing a P4P Model for Europe

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# TABLE OF CONTENTS

# EXECUTIVE SUMMARY

In 2016, ISS will for the first time introduce a quantitative pay-for-performance (P4P) assessment for the largest European companies. Where appropriate, we have sought to leverage common features of ISS pay-for-performance models implemented in the US and Canada. In addition, the approach has been adapted as necessary to fit the European context, notably in relation to the construction of peer groups and the pay calculation methodology.

The European peer groups approach we chose differs from that used in our US and Canadian models in two key ways: (1) by adopting a banded approach to market pay levels for the European model; and (2) by solely using ISS-selected peers in the European model and not both ISS and company-selected as in the US and Canadian models. Additionally, the pay methodology is based on realised pay, while the US and Canadian models use granted pay. The rationale for these differences is explained in more detail later in this document.

For ISS benchmark voting polices, assessment of remuneration for European (including UK & Irish) companies follows the ISS Global Principles on Executive and Director Compensation which are detailed below. These take into account global corporate governance best practice principles.

Under the ISS Global Principles on Compensation, companies should:

1. Provide shareholders with clear, comprehensive compensation disclosures;
2. Maintain appropriate pay-for-performance alignment with emphasis on long-term shareholder value;
3. Avoid arrangements that risk "pay for failure;"
4. Maintain an independent and effective compensation committee; and
5. Avoid inappropriate pay to non-executive directors.

The ISS European pay-for-performance model will provide quantitative elements, which consider both relative P4P alignment compared with peer groups and absolute P4P alignment. The methodology is described in this paper, and, like our P4P methodology for US and Canada, it incorporates models for RDA (Relative Degree of Alignment) MOM (Multiple of Median) and PTA (Pay-TSR Alignment).

It is important to emphasise that the addition of the European pay-for-performance model to ISS benchmark research reports will be additive and is intended to provide additional data points for comparability. Therefore, while the P4P model is based on realised pay, the additional qualitative review by ISS research analysts will continue to take into account both the granted and realised elements of remuneration during the year under review. The qualitative factors that ISS also considers in its holistic analysis of pay in each specific market or region are discussed in the separate ISS European and United Kingdom & Ireland benchmark policies.

The European P4P coverage universe for the 2016 season will comprise companies in the STOXX Europe 600[1]. For the first year of the model, the universe constituents will be set in December 2015. Index constituents will then be reviewed annually, from December 2016. The relevant ISS proxy research reports for companies covered by European P4P assessment for 2016 will include the pay-for-performance graphs, similar to those in our US and Canadian reports, for meetings on or after 1 February 2016.

[1] https://www.stoxx.com/index-details?symbol=SXXP

Further information will be available from the ISS P4P helpdesk, which should be contacted in the first instance for any queries. The Helpdesk can be contacted using the following email address: EuropeanP4PSupport@issgovernance.com.

# INTRODUCTION

The current ISS pay-for-performance (P4P) model for the US was launched in 2012, and was implemented for Canada in 2013. Feedback from institutional investors has identified significant interest in a quantitative pay-for-performance model for Europe. The 2014 ISS Policy Survey noted that 83 per cent of investors who responded indicated that they supported the development of a European pay for performance quantitative methodology, including the use of peer group comparisons.

However, ISS recognises that remuneration disclosures across the various European markets are more diverse than in the single markets of US and Canada, and that there are certain local market practices which mean that elements of the US and Canadian quantitative methodologies need to be adapted to be appropriate for the European context. Two particular challenges within the European context are (1) most pay disclosure practices are market-specific, and (2) there has been significant evolution of different and often varying market practices in recent years. These challenges have been addressed as part of the development of the model.

The purpose of ISS' pay-for-performance evaluation is to identify companies where there appears to be a misalignment between performance and pay. ISS' P4P quantitative assessment is designed to identify such misalignments, based on both relative and absolute pay-performance evaluations, as well as to identify apparent good or satisfactory alignment that investors also appreciate being aware of.

## The ISS P4P quantitative methodology delivers a common, global approach

The quantitative methodology utilises two components:

- **A relative evaluation** – rankings of CEO pay and performance relative to peer companies.
- **An absolute evaluation** – CEO pay relative to shareholder return for the subject company.

Both are considered from an investor's perspective in evaluating the efficacy of top executive pay packages over time. For the relative evaluation, peer groups are designed not for pay benchmarking or stock-picking but rather to compare pay and company performance within a group of companies that are reasonably similar in terms of industry profile and size.

The evaluation focuses on the realised pay for the lead executive, typically the CEO, for the period under consideration, although it is important to note that the three different models measure pay over three different time periods (typically one, three and five years for the MOM, RDA, and PTA models, respectively). To keep things simple, for the rest of the document, we will refer to this as total CEO pay, as this is what has been analysed in the vast majority of cases.

## What We Measure -- Pay

All figures in the European P4P model are based on realised (i.e., vested) not granted pay. The CEO's total remuneration includes the cash and benefit values actually paid, and the value of any amounts "realised" (i.e., exercised or earned due to satisfaction of performance goals) from incentive grants made during a specified measurement period, based on their value at the end of the measurement period.

This is one area where the European implementation differs from our US and Canadian approach, which uses a granted pay definition. During the development of the model, the ISS European research team reviewed how pay is typically disclosed in each market and the outcome was that a model based on realised pay was determined to fit better with the general direction of pan-European market practice; this conclusion was subsequently tested and verified with a number of our institutional investor clients during the model development phase.

One example of the trend towards looking at realised pay rather than granted pay, is the Deutscher Corporate Governance Kodex, the German Corporate Governance Code, which in its 2013 version added a recommendation that listed companies disclose management board pay both on a realised basis and on a granted basis (previously pay disclosure was generally recommended without specific guidelines, leading the majority of companies to disclose granted pay data only.). Another example is the introduction of the UK Single Total Figure table, which was brought in for large and medium-sized companies in 2013, and requires the following disclosure[2]:

*The annual remuneration report must include a table showing the single total figure of remuneration for each director for the reported year and the financial year before that. The company may disclose the information for executive and non-executive directors in separate tables.*

*The table must include, for each of the two years, a total figure and show the breakdown of that figure by disclosing figures for distinct components including: base salary; taxable benefits; short-term incentives (including percentage deferred); long-term incentives vested in the year; pension related benefits; any other items in the nature of remuneration and any sum recovered or withheld during the year in respect of amounts paid in earlier years.*

*The table may also include such other information as the directors determine. Where any discretion has been exercised in respect of a short-term or long-term incentive that vested in the reported year, details of how the discretion was exercised and how the level of award was determined must be given.*

it is important to note that the qualitative review undertaken by ISS research analysts in ISS proxy voting reports will continue to take into account both granted pay and realised pay. Both views of remuneration practices are valuable to institutional investors, as they answer fundamentally different questions which are forward-looking (granted) and retrospective (realised) in nature.

## Calculating a European single total pay figure

The European P4P model calculates a single total figure based on the CEO's realised pay for the year under review.

[2] As referred to on Page 8 of the GC100 and Investor Group Directors' Remuneration Reporting Guidance 2013

Where a suitable single realised pay figure is not available from the current company disclosures, ISS has created a model single total figure based on knowledge of local market practices. In certain markets where the standard is still to report only granted pay values, this involved the local ISS Research teams identifying consistent handling rules to create consistent realised pay figures for the year under review. Where company disclosure is considered too limited to permit this, a company may be excluded from the model for poor disclosure.

If a company wishes to see how its underlying model total figure was calculated, it can request this information from the ISS P4P helpdesk via EuropeanP4PSupport@issgovernance.com.

In the markets covered by ISS European policy[3] the pay components which contribute towards the overall single figure for total CEO remuneration are listed in the table below, with a discussion of how each item is interpreted.

**Figure 1. Elements Of Pay In The Continental Markets**

| Item | Commentary |
|---|---|
| Base salary | The annual base salary received for the last financial year, as reported in the emoluments table (or equivalent) in the financial statements. |
| Perquisites | The cost or estimated value of other benefits, for example, private health insurance. |
| Pension | The 'pension costs' for the last financial year, as reported in the emoluments table (or equivalent). |
| All other compensation | All other compensation is a category which can be used for payments that do not fit into any other category, for example, severance pay. |
| Cash bonus | Bonus earned for the last financial year as reported in the emoluments table (or equivalent) in the financial statements, or otherwise disclosed. |
| Deferred/share bonus | The portion of the annual bonus that has been earned and will be deferred, assuming that the deferred portion is not subject to any further performance conditions, other than continued employment. In addition, payments from previous bonus deferrals should be included, in case these have been subject to performance conditions. |
| Non-equity incentives | Non-equity incentives refer to cash-settled LTIPs. |
| Restricted stock | Share-based payments should reflect the value of share awards vesting over the prior year (so "realised" or take-home equity-based pay). If it concerns non-performance based stock awards, the value at grant date will be used. |
| Option grant | This includes both take-home pay from non-performance-based as well as performance-based stock options vesting during the year (or potentially exercised). Options will be valued using intrinsic value (exercise price minus market price) because changes in the fair value of the award after vesting generally reflect investment decisions made by the executive rather than remuneration decisions made by the company. |

For the UK, the figure for total CEO remuneration uses the single total figure disclosed by the company, and many of the largest Irish and Jersey companies tend to use the UK single total figure disclosure format. For the small number of companies who do not, a "synthetic" single total figure has been calculated from the individual remuneration elements as in the European example.

## Exclusions for poor disclosure practices

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[3] Austria, Belgium, Denmark, France, Finland, Germany, Greece, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden and Switzerland

All STOXX 600 subject companies were subject to a data quality review, after the data available had been collected by ISS from the company materials, to ensure that the overall pay figure could be calculated in a consistent fashion for all companies in a market. As part of this review, a minority of subject companies were found to have such poor disclosure practices that they could not be included in the model. The companies which were excluded were from a variety of markets and sectors, and the review concluded that these exclusions were largely due to company-specific inadequate disclosure practice rather than such poor disclosure being typical of a specific market or sector.

## What We Measure -- Performance

There are, of course, myriad ways to measure corporate performance, and key metrics may vary considerably from industry to industry and from company to company depending on their particular business strategy at any given time. Investors expect that incentive plan metrics will stem from that strategy and be designed to motivate the behavior and executive decisions that will lead to its successful execution, but the one key common measure for investors in the context of a long-term pay-for-performance evaluation is total shareholder return (TSR).

We would note that this does not imply that ISS advocates for companies using TSR as the single metric underlying their incentive programs; many companies and shareholders may prefer that incentive awards be tied to the company's business goals more broadly than TSR. However, if a company’s business strategy is sound and well executed, the expectation is that it will create value for shareowners over time, and this will generally be reflected in long-term total shareholder returns. TSR is therefore the primary measure used in ISS' quantitative pay-for-performance alignment models. Various other financial and operational metrics are also considered when company practices and remuneration decisions are analysed as part of the qualitative review undertaken for ISS proxy research reports.

The TSR data used in the European pay-for-performance model is provided by the same data vendor (S&P/Compustat XpressFeed) using the same TSR methodology (S&P’s standard TSR methodology) as the TSR data already included in the ISS proxy research reports.

## What We Measure -- Relative and Absolute Alignment Over Time

In 2011, a substantial majority of institutional investor respondents to ISS' policy survey confirmed two factors as important in determining pay-for-performance alignment: pay relative to peers (considered very relevant by 62 percent of investor respondents), and pay increases that are disproportionate to the company's performance trend (considered very relevant by 88 percent of investor respondents). A majority of company (issuer) respondents also indicated these factors as at least somewhat relevant to a pay-for-performance evaluation.

In light of this and similar feedback from roundtables and other discussions forums ISS incorporated both perspectives into the quantitative component of its pay-for-performance analysis when developing the US pay-for-performance approach which was launched in 2012. This ensures a balanced evaluation from both relative and absolute pay-for-performance perspectives.

# ISS' QUANTITATIVE EVALUATION OF PAY-FOR-PERFORMANCE ALIGNMENT

## Measures of Pay-for-Performance Alignment

At the core of the quantitative methodology are three measures of alignment between executive pay and company performance: two *relative* measures where a company's pay-for-performance alignment is evaluated in reference to a group of comparable companies, and one *absolute* measure, where alignment is evaluated independently of other companies' performance.

The three measures are:

- **Relative Degree of Alignment**. This relative measure compares the percentile ranks of a company's CEO pay and TSR performance, relative to an industry-and-size derived comparison group, over a three-year period.
- **Multiple of Median**. This relative measure expresses the prior year's CEO pay as a multiple of the median pay of its comparison group for the same period.
- **Pay-TSR Alignment**. This absolute measure compares the trends of the CEO's annual pay and the value of an investment in the company over the prior five-year period.

## Measures of Relative Alignment

### Relative Degree of Alignment (RDA)

This measure addresses the question: Is the pay the CEO has received for the period under review commensurate with the performance achieved by the company in the same period, relative to a comparable group? The measure compares the percentile ranks of a company's CEO pay and TSR performance, relative to a comparison group of 12-24 companies selected by ISS on the basis of size and industry over a three-year period.

To determine this measure, the subject company's percentile ranks for pay and performance are calculated for the three-year period. Because of the sensitivity of TSR to overall market performance, annualised TSR performance for all companies will be measured for the same period.

Combined percentile ranks for pay and for performance are calculated, and the Relative Degree of Alignment is equal to the difference between the ranks: the combined performance rank minus the combined pay rank.

**Figure 2. Example of Calculating RDA Score**

| | Performance | Pay | Difference |
|---|---|---|---|
| 3-Year | 32 | 59 | -27 |

Values for the Relative Degree of Alignment measure range between -100 and +100, with -100 representing the high pay for low performance (i.e., $100^{th}$ percentile pay combined with $0^{th}$ percentile performance), zero representing a high degree of alignment (the pay rank is equal to the performance rank), and positive values representing high performance for low pay.

If a subject company does not have 3 years' worth of data, then RDA will be run in either 2 or 1 year mode, depending on the number of years of data the subject company has available.

### Multiple of Median (MOM)

This measure addresses the questions: Was the CEO paid significantly more in the last year than his or her peers in the comparison group? To calculate this measure, the company's one-year CEO pay is divided by the median pay for the comparison group.

## Measure of Absolute Alignment

The absolute alignment test is intended to compare pay and TSR trends to determine whether shareholders' and executives' experiences are directionally aligned.

### Pay-TSR Alignment (PTA)

PTA is a long-term measure of directional alignment. It is important to note that it is not designed to measure the sensitivity of CEO pay to performance – i.e. whether pay and performance go up and down together on a year-over-year basis.

The measure is calculated as the difference between the slopes of weighted linear regressions for pay and for shareholder returns over a five-year period. This difference indicates the degree to which CEO pay has changed more or less rapidly than shareholder returns over that period. For technical information on how the regressions are calculated, please see Appendix II of the November 2014 edition of the white paper which describes the US pay-for-performance approach, "Evaluating Pay for Performance Alignment."

The trend lines calculated by these regressions are analogous to a 5-year "trend rate" for pay and performance, weighted to reflect recent history. The final Pay-TSR Alignment measure is simply equal to the difference: performance slope minus the pay slope.

# THE EUROPEAN APPROACH TO PEER GROUP CONSTRUCTION

The peer groups approach for the European pay-for-performance model differs from that used in the ISS US and Canadian models in two key ways: (1) by adopting a banded approach to market pay levels for the European model (2) by solely using ISS-selected peers in the European model and not both ISS and company-selected as in the other models. In other ways, it operates similarly to the US and Canadian models.

## Number of peers

As in the US model, the European model typically has a minimum of 12 peers and a maximum of 24 peers.

## Remuneration data and Industry classification

ISS' remuneration data sample covers about 1,100 European companies' total remuneration in the past 3 to 5 years. All monetary amounts are in or converted to million euros. The industry classification used is the GICS[4] code, which is a four-tiered, hierarchical industry classification system consisting of 10 sectors (GICS 2), 24 industry groups (GICS 4), 67 industries (GICS 6) and 156 sub-industries (GICS 8). Each company has a GICS 8 code based on its principal line of business activity.

## How size is calculated

The European P4P model shares the current methodology taken from the US model as described on Page 19 of the 2014 US P4P white paper. The majority of industry sectors use revenues as an indicator of size. However, certain industry sectors use market capitalization (market cap) or assets on the balance sheet. The decision tree within the algorithm has been implemented as follows:

- **Revenues:** If subject company is not in the GICS codes below, use revenues to compare for company size

- **Assets:** If subject company is in the GICS codes below, then qualify all peers within these asset-based GICS using assets, but qualify all peers outside the asset-based GICS using revenues
    - 40101010 Commercial Banks
    - 40101015 Regional Banks
    - 40102010 Thrifts + mortgage
    - 40202010 Consumer Finance
    - 40201020 Other diversified

- **Market cap:** If subject company is in the GICS codes below, only the market cap test is used to qualify a peer
    - 10102010 Integrated Oil & Gas
    - 10102020 Oil & Gas Exploration & Production
    - 10102030 Oil & Gas Refining & Marketing
    - 10102040 Oil & Gas Storage & Transportation
    - 10102050 Coal & Consumable Fuels

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[4] https://www.msci.com/gics

Both subject and potential peer must be in the asset-based GICS groups listed above in order to be compared on the basis of assets. In cases where a subject company is in one of the asset-based GICS groups and a potential peer is not, revenues will be used for size comparisons. This principle applies to the size comparisons made to qualify a peer for potential inclusion as a peer, to the size rankings made to maintain the subject company near the median size of the peer group, and to the size prioritistion of peers.

If a company wishes to understand how its size was calculated, it can request this information from the ISS P4P helpdesk via EuropeanP4PSupport@issgovernance.com.

## Peer group construction

The ISS US methodology benchmarks "similar" companies by the two important explanatory factors of executive remuneration in the US: size and industry, which has been confirmed by empirical data, using common regression analysis.

The European situation is similar to US but adds a new dimension: "country," where empirical remuneration data concludes that size, country, and industry are the three significant explanatory factors. This means that, in the European context, the ISS methodology extends the view of benchmarking similar companies from "size/industry" to "size/industry and countries of similar pay level".

This is a new approach, and ISS will be keeping it under review based on feedback received during 2016. If a company does not agree with the peers which have been allocated by the model, or considers they have been wrongly allocated, it can provide this feedback to the ISS P4P helpdesk via EuropeanP4PSupport@issgovernance.com.

## Country bands

ISS is implementing the view of "countries of similar pay level" by introducing the concept of "bands" and by grouping into the same band countries that show similar country-level remuneration, after controlling for size and industry. The introduction of the additional consideration, "band", allows the methodology to remove as far as possible the undesirable biases that can occur when companies from very different band(s) are used for benchmarking purposes.

More precisely, the ISS European P4P methodology incorporates "band" consideration to remove such undesirable bias at two stages:

- **Stage 1**: The methodology benchmarks a subject company to peers from the same/similar band(s) whenever possible.
- **Stage 2**: The methodology further compares a subject company's P4P result to all subject companies' P4P outcomes in the same band to eliminate systematic band-specific bias not removed in the prior step.

In other words, stage 1 is reflected in the ISS peer selection methodology. Stage 2 is reflected in ISS' view of P4P outcome = "LOW/MEDIUM/HIGH” concern, which is set up at a per-band basis in the European context.

When grouping countries into bands, ISS considers the following:

- Views from the regression-adjusted analyses of ISS' European remuneration data that present country-level remuneration (by median and average, and by other versions of regression analyses commonly adopted.
- Views from feedback from institutional investors.

The constituents of the country bands are shown below. The membership of each band can be adjusted, although there are no current plans to do so, in order that a country could move between different bands to reflect changes in market practice over time. It is anticipated that the placing of countries within bands will be reviewed annually.

**Figure 3. Constituents of Country Bands**

| Band | A | B | C | D |
|---|---|---|---|---|
| Constituents | UK<br>Ireland<br>Jersey | Germany<br>Switzerland | Belgium<br>France<br>Italy<br>Netherlands<br>Sweden<br>Spain | Austria<br>Denmark<br>Finland<br>Greece<br>Luxembourg<br>Norway<br>Portugal |

The country bands were constructed based on the testing of the data used by the model to identify country groupings around quantum of total CEO pay, adjusted for average company size. They were also discussed with a number of institutional investor clients during the model development phase to check that the company placings were in line with expectations.

## Company-disclosed peers

In the US and Canada, companies include their chosen peers for benchmarking purposes in their disclosed meeting materials. In Europe, it is still very rare to see companies systematically including self-selected peers in the annual report or other materials, with the exception of some larger companies in certain markets.

As this is not a widespread practice in all European markets, the decision was made for 2016 season to only use ISS-selected peers in the European pay-for-performance model. However, if over time more European companies begin to disclose their company-selected peers, this decision may be reviewed again in future, in line with developments in market practice.

# NOTES ON IMPLEMENTATION

It is important to emphasise the addition of the European pay-for-performance model to the ISS benchmark research reports will be additive and is intended to provide our clients with additional data points for comparability. Also, while the model is based on realised pay, the qualitative reviews by ISS research analysts will continue to take into account both the granted and realised elements of remuneration during the year under review, as appropriate.

The rest of this section will discuss how the pay-for-performance charts will be presented in the ISS benchmark research reports, and how frequently the model will be updated.

## Presentation within the research reports

The relevant ISS European proxy research reports for the companies included in the European P4P model, will include pay-for-performance graphs, similar to those seen in the US reports, for meetings on or after 1 February 2016.

In the ISS US and Canadian research reports, the three models are represented with the RDA, MOM and PTA charts. The peers used in the model are identified, as is the overall level of concern.

In the ISS European research reports, the Pay-for-Performance charts will be presented on a single page near the front of the report in the remuneration profile section. The new expanded profile will sit in the overall company information section rather than in the body of the report with the resolutions.

The peer sections in the US and Canadian research reports include both ISS and company-selected peers. As previously discussed, there will be no company-selected peers in the European model so the elements of the US and Canadian reports which display these will not be present in the European reports. However the ISS model-selected peers will be listed as in the example below, which contains sample data.

**Figure 4. ISS-Selected Peers**

ISS SELECTED PEERS

| | |
|---|---|
| AstraZeneca plc | United Kingdom |
| GlaxoSmithKline plc | United Kingdom |
| Merck KGaA | Germany |
| Novartis AG | Switzerland |
| Roche Holding Ltd | Switzerland |
| Bayer AG | Germany |

Within the ISS research reports:

- **The Relative Alignment (RDA)** chart compares the performance and pay rankings of the subject company and its peers over (typically) three years.
- **The Magnitude of Pay (MOM)** chart shows the CEO pay for the most recent year compared with that of its peers.
- **The Absolute Alignment (PTA)** chart compares the subject company's CEO pay with indexed TSR over (typically) five years.
- **The Pay-For-Performance Quantitative Screen** summarises the overall level of concern.

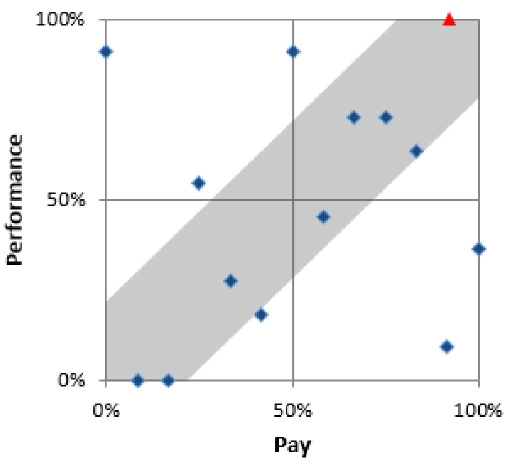
Please note that the look-and-feel of the charts may differ slightly in the final implementation, but these examples are intended to be representative of what will be presented in the research reports in 2016.

**Figure 5. Pay-for-Performance Charts**

Pay for Performance Evaluation High concern

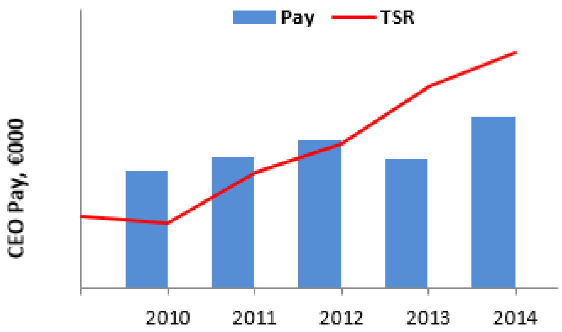
RELATIVE ALIGNMENT

The chart plots percentiles of the annualized 3-year performance and pay rankings for the company (▲) and ISS' derived peers (◆). The gray bar indicates pay and performance alignment.




ABSOLUTE ALIGNMENT

CEO granted pay trends versus value of a €100 investment made on the first day of the five-year period.

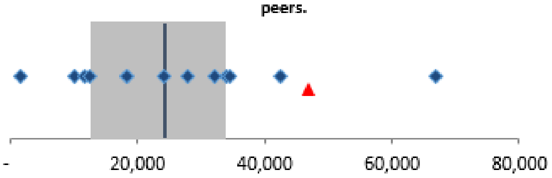



| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Pay(€000) | 32,039 | 35,768 | 40,713 | 35,353 | 47,124 |
| Indexed TSR | 121.85 | 112.21 | 197.62 | 247.44 | 345.44 |
| CEO | Jeer | Jeer | Jeer | Jeer | Jeer |

PAY MAGNITUDE

Pay in €thousands. The gray band represents 25th to 75th percentile of CEO pay of ISS' selected peer group, and the blue line represents the 50th percentile.

The company's total CEO pay is 1.94 times the median of its peers.




PAY-FOR-PERFORMANCE QUANTITATIVE SCREEN

| Measure | Concern |
|---|---|
| Relative degree of alignment | Medium |
| Multiple of peer group median | High |
| Absolute alignment | Low |

Initial Quantitative Screen: Low Concern Medium Concern High Concern

For more information on ISS' quantitative pay-for-performance measures, download http://www.issgovernance.com/file/policy/european-pay-for-performance-methodology-overview.pdf

## Model updates

The coverage universe for the model in 2016 is the STOXX Europe 600. The universe will be updated as of December 2015, and then will be used unchanged until after 2016 season.

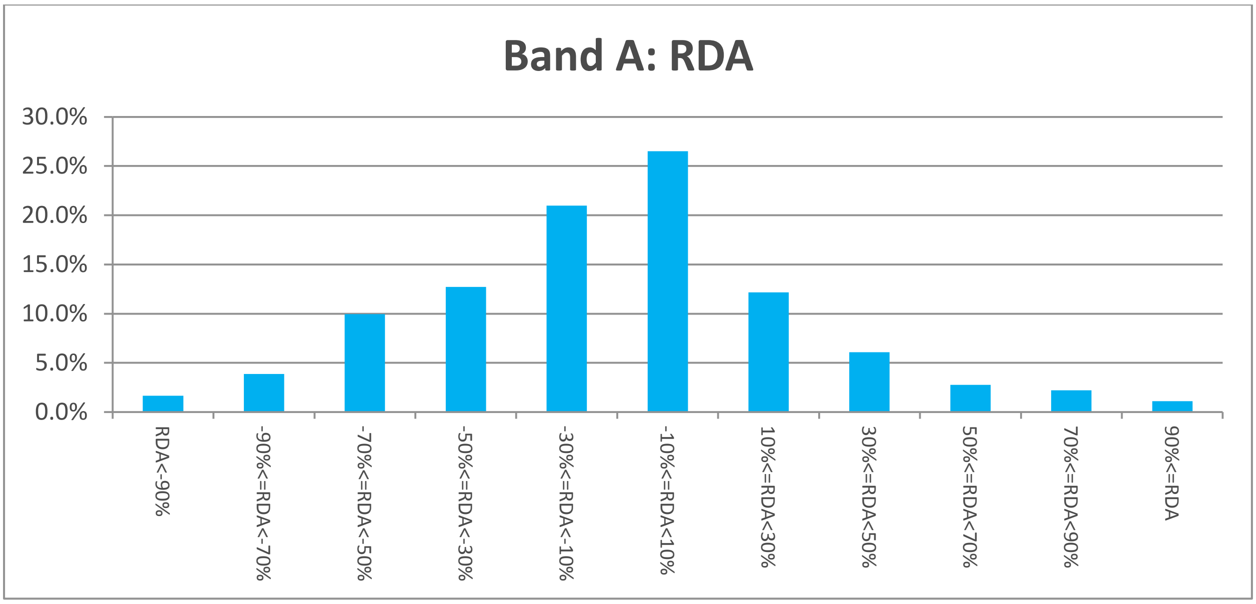
Following the universe update in December 2015, the company peers will be reviewed by ISS Research and will be finalised by close of business on or around 22 January 2016. Until that point, any peer allocations should be considered as provisional, although any changes between the model launch and the finalized peers due January 22 2016 will be minimized and changes made on an exceptional basis only.

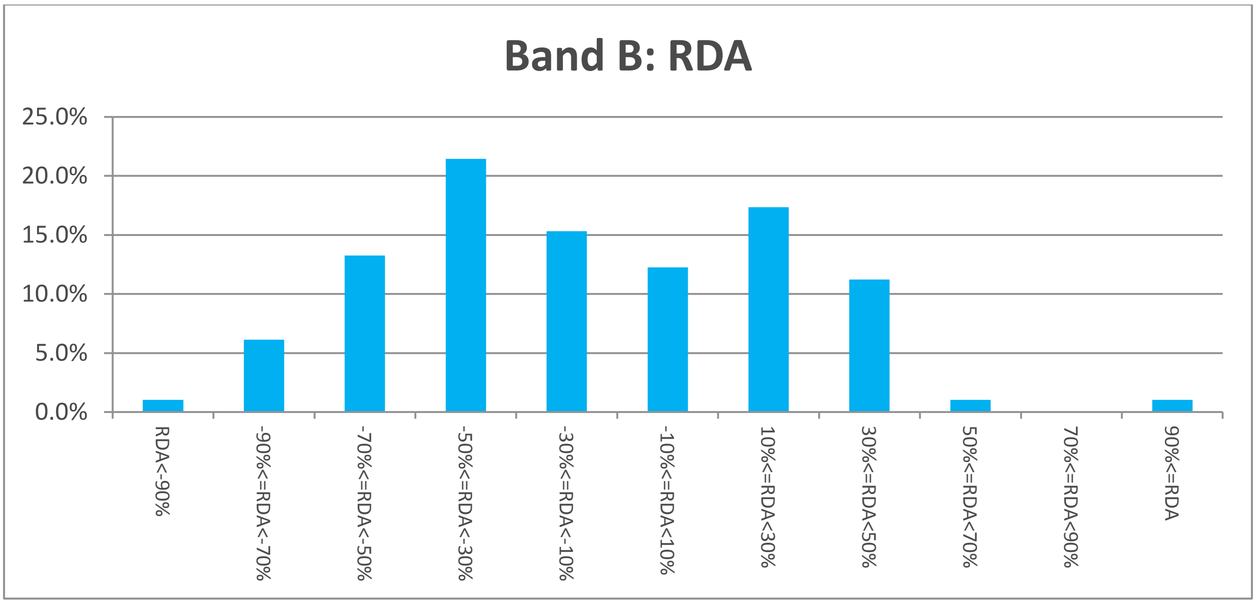
# APPENDIX: BACK-TESTING THE MODEL

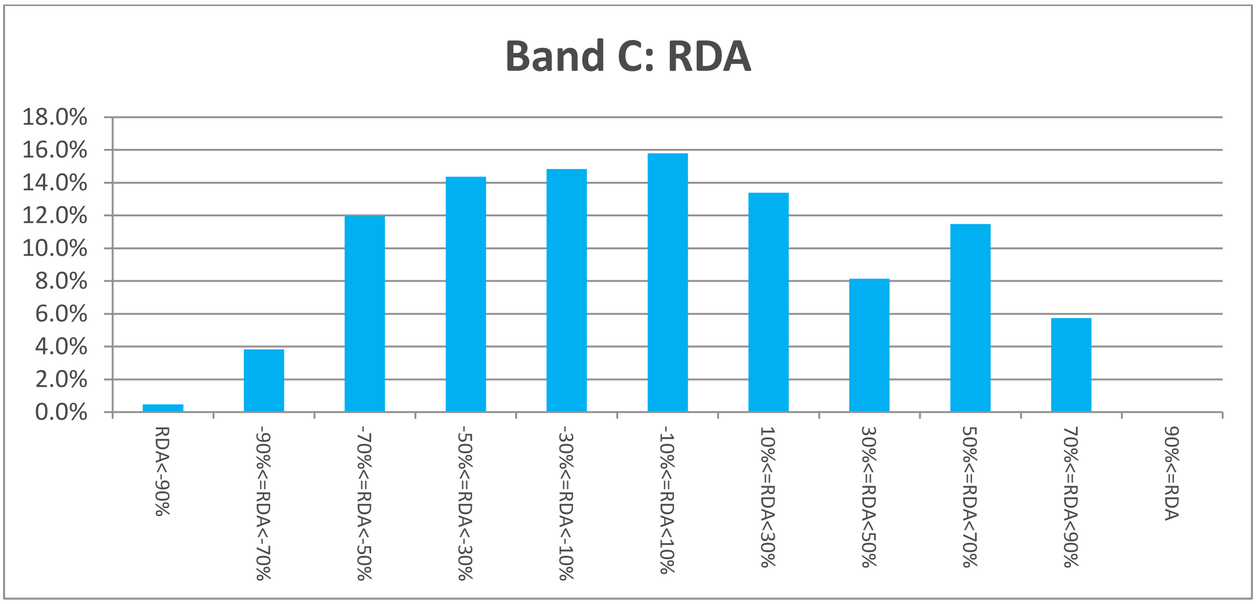
The distribution of scores has been tested for the three models, RDA, MOM and PTA, by band and was broadly in line with that seen for the North American models, although due to the smaller sample size in the European model, the slope of the distribution was less smooth.

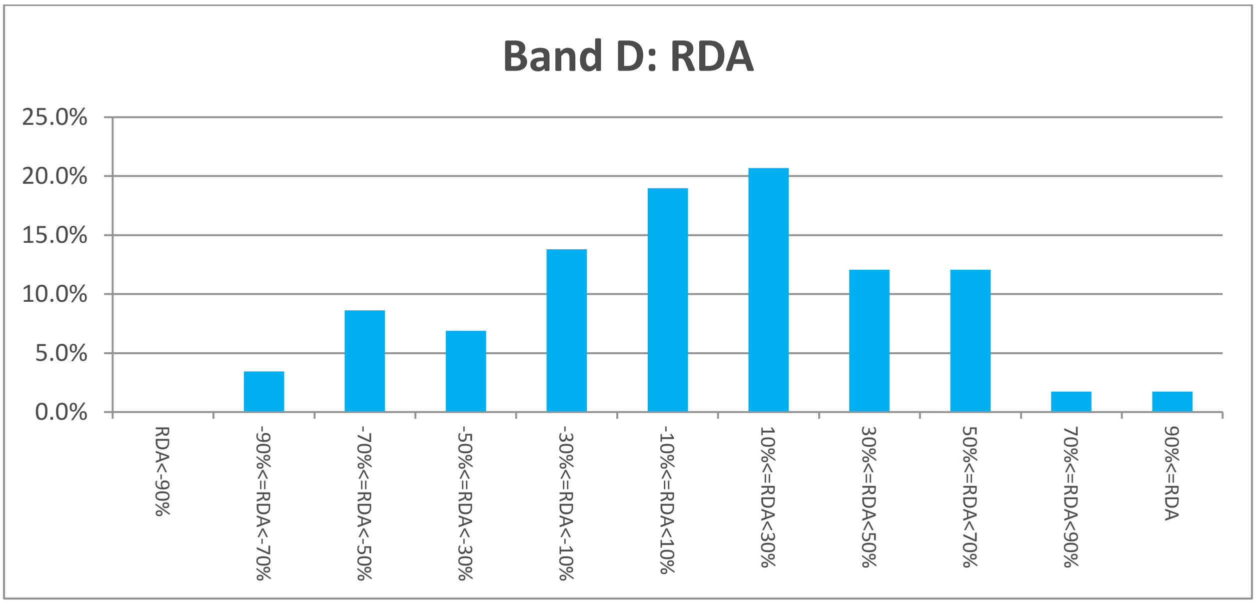
## Relative Degree of Alignment

Figure 6a-d. Distribution of RDA scores for each country band.



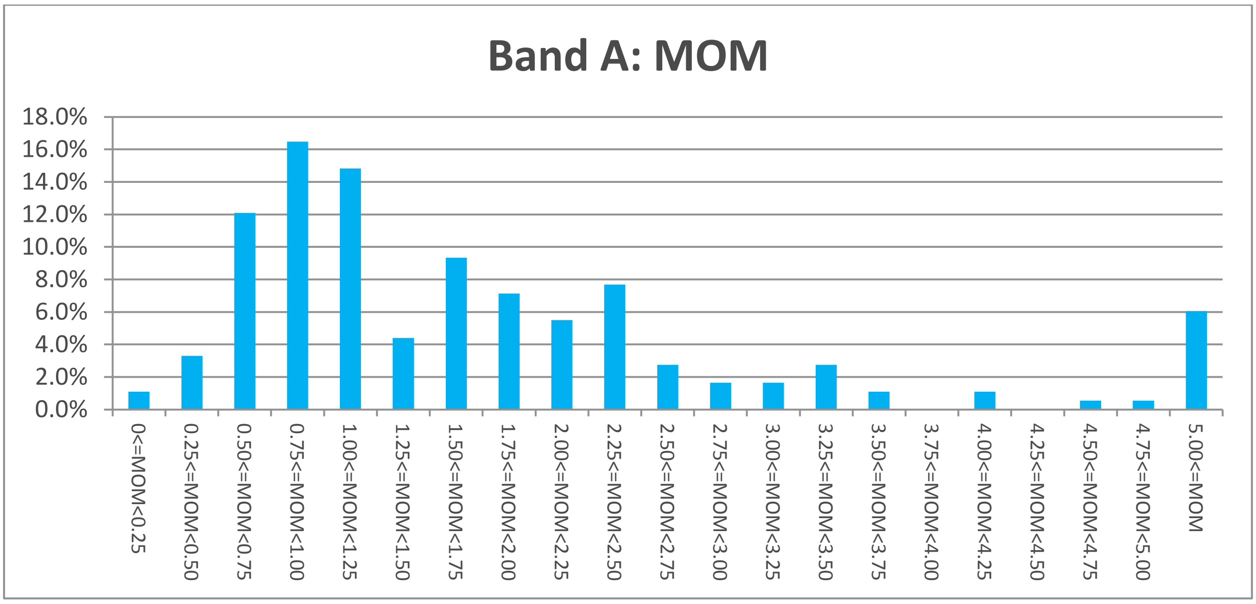



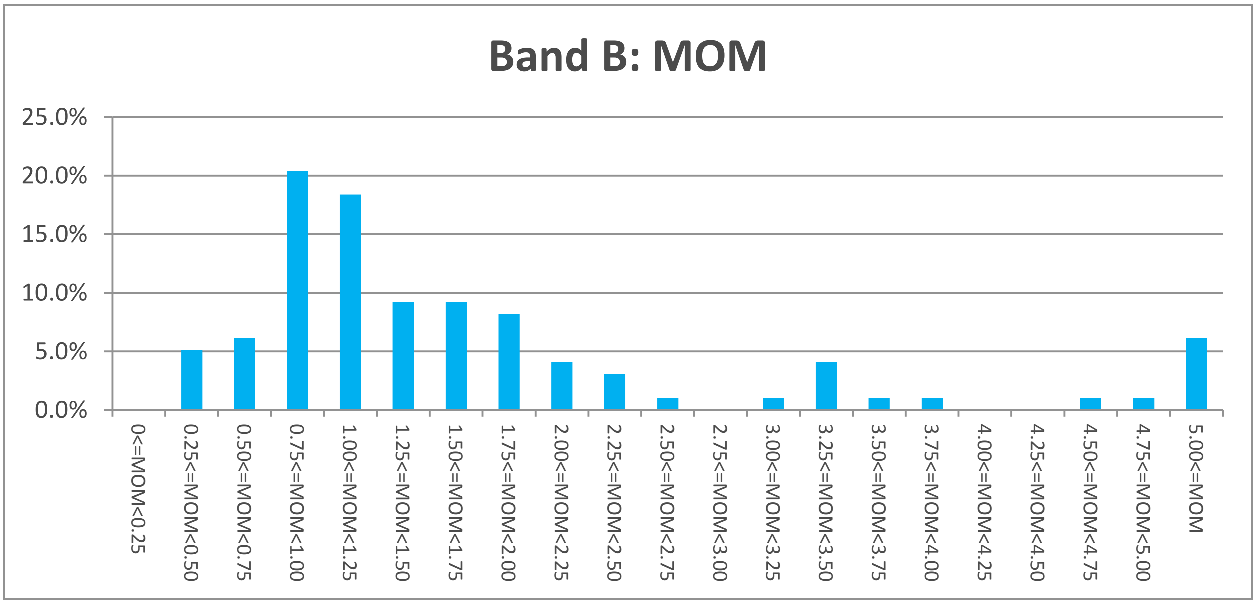

Band C: RDA
18.0%
16.0%
14.0%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
RDA<-90%
-90%<=RDA<-70%
-70%<=RDA<-50%
-50%<=RDA<-30%
-30%<=RDA<-10%
-10%<=RDA<10%
10%<=RDA<30%
30%<=RDA<50%
50%<=RDA<70%
70%<=RDA<90%
90%<=RDA

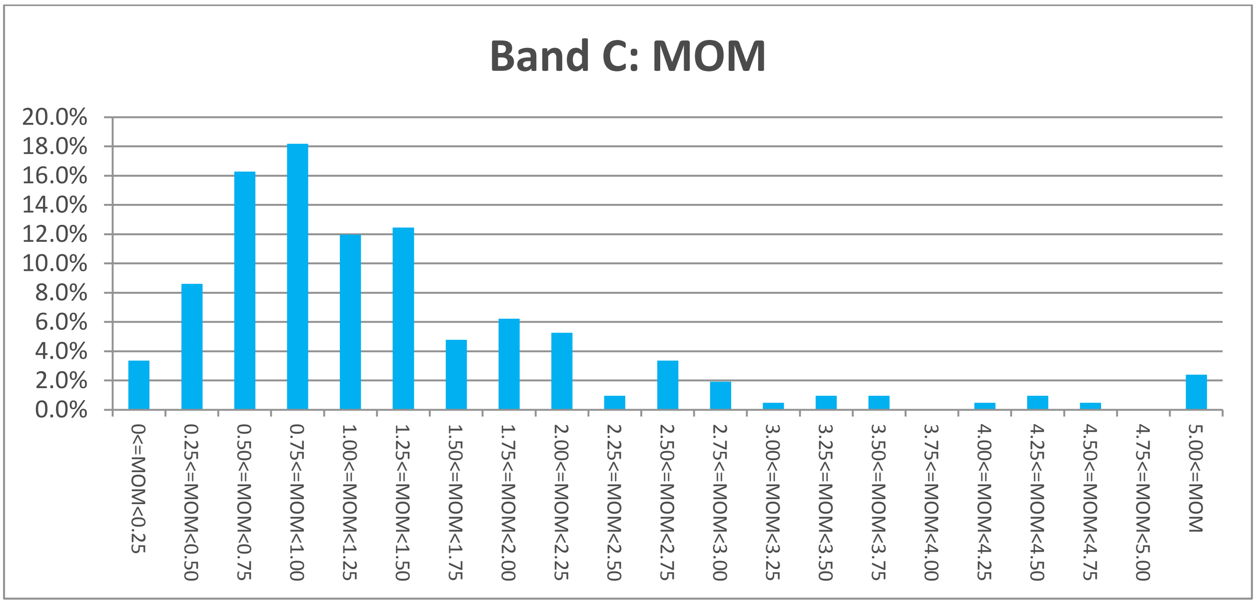

Band D: RDA
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
RDA<-90%
-90%<=RDA<-70%
-70%<=RDA<-50%
-50%<=RDA<-30%
-30%<=RDA<-10%
-10%<=RDA<10%
10%<=RDA<30%
30%<=RDA<50%
50%<=RDA<70%
70%<=RDA<90%
90%<=RDA

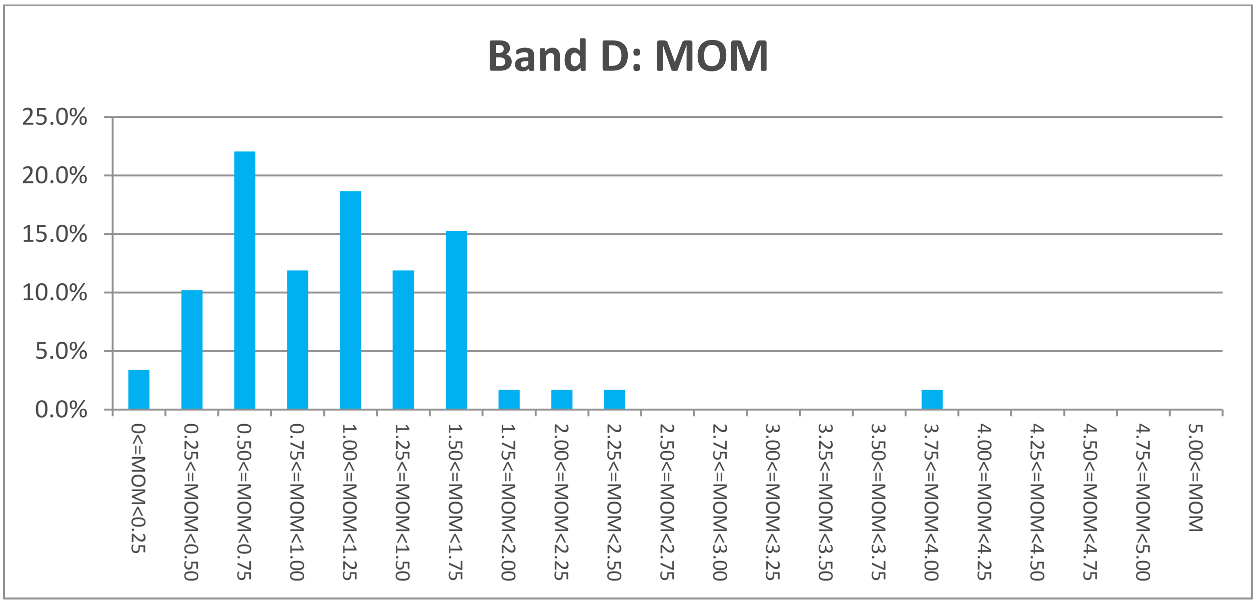
## Multiple of Median

Figure 7a-d. Distribution of MOM scores for each country band.



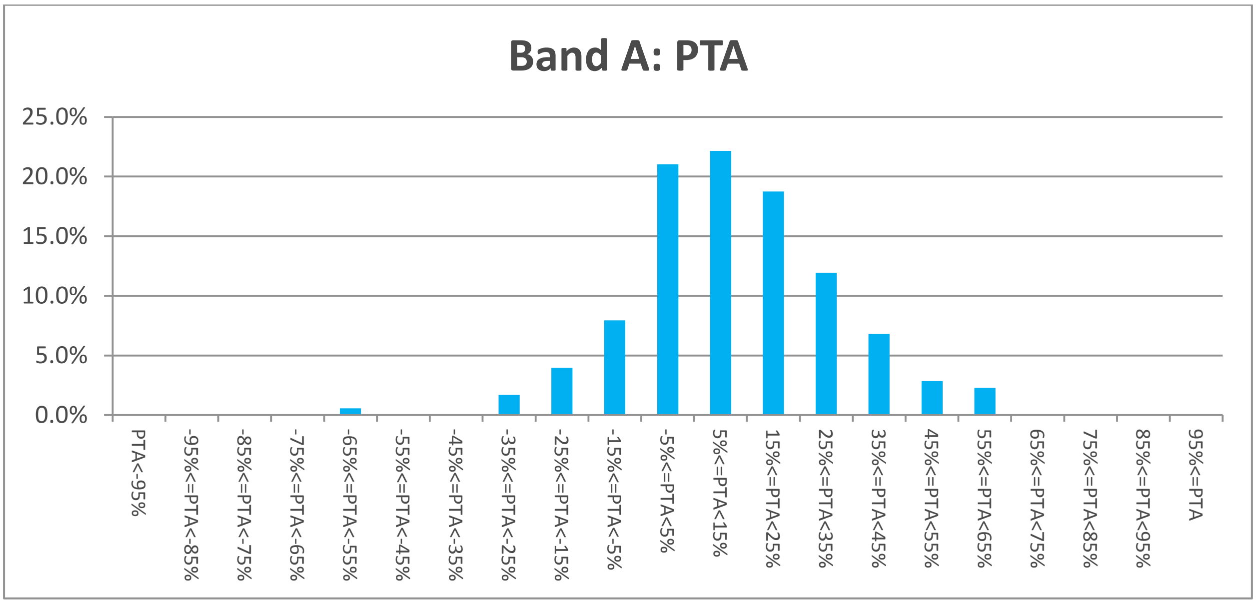



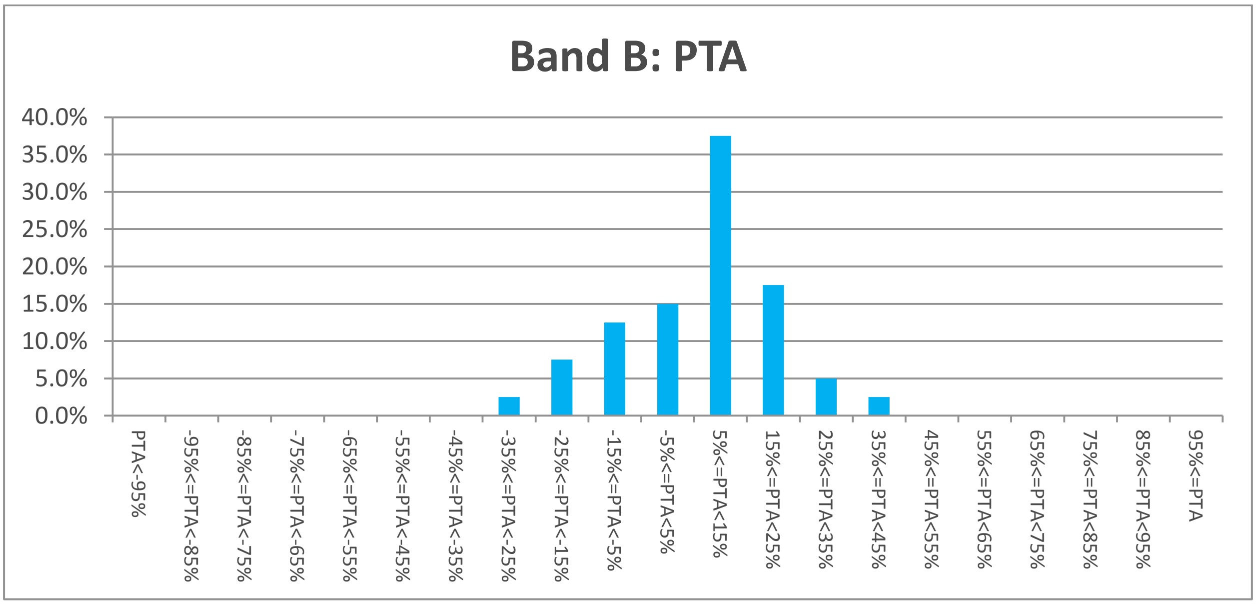

Band C: MOM
20.0%
18.0%
16.0%
14.0%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
0<=MOM<0.25
0.25<=MOM<0.50
0.50<=MOM<0.75
0.75<=MOM<1.00
1.00<=MOM<1.25
1.25<=MOM<1.50
1.50<=MOM<1.75
1.75<=MOM<2.00
2.00<=MOM<2.25
2.25<=MOM<2.50
2.50<=MOM<2.75
2.75<=MOM<3.00
3.00<=MOM<3.25
3.25<=MOM<3.50
3.50<=MOM<3.75
3.75<=MOM<4.00
4.00<=MOM<4.25
4.25<=MOM<4.50
4.50<=MOM<4.75
4.75<=MOM<5.00
5.00<=MOM

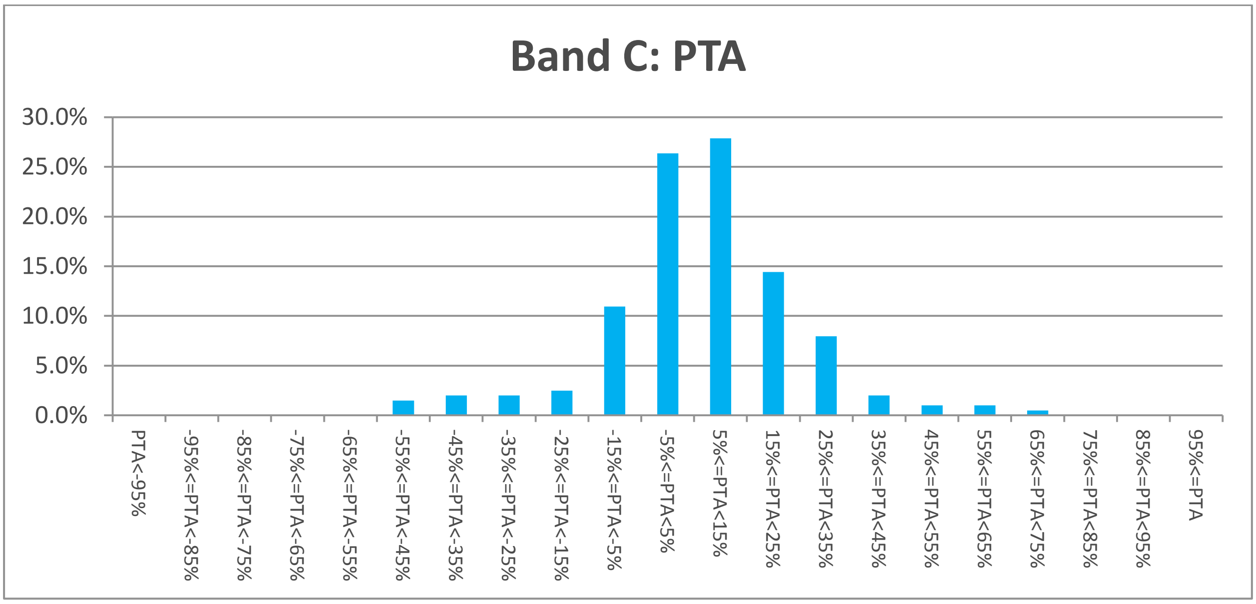

Band D: MOM
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
0<=MOM<0.25
0.25<=MOM<0.50
0.50<=MOM<0.75
0.75<=MOM<1.00
1.00<=MOM<1.25
1.25<=MOM<1.50
1.50<=MOM<1.75
1.75<=MOM<2.00
2.00<=MOM<2.25
2.25<=MOM<2.50
2.50<=MOM<2.75
2.75<=MOM<3.00
3.00<=MOM<3.25
3.25<=MOM<3.50
3.50<=MOM<3.75
3.75<=MOM<4.00
4.00<=MOM<4.25
4.25<=MOM<4.50
4.50<=MOM<4.75
4.75<=MOM<5.00
5.00<=MOM

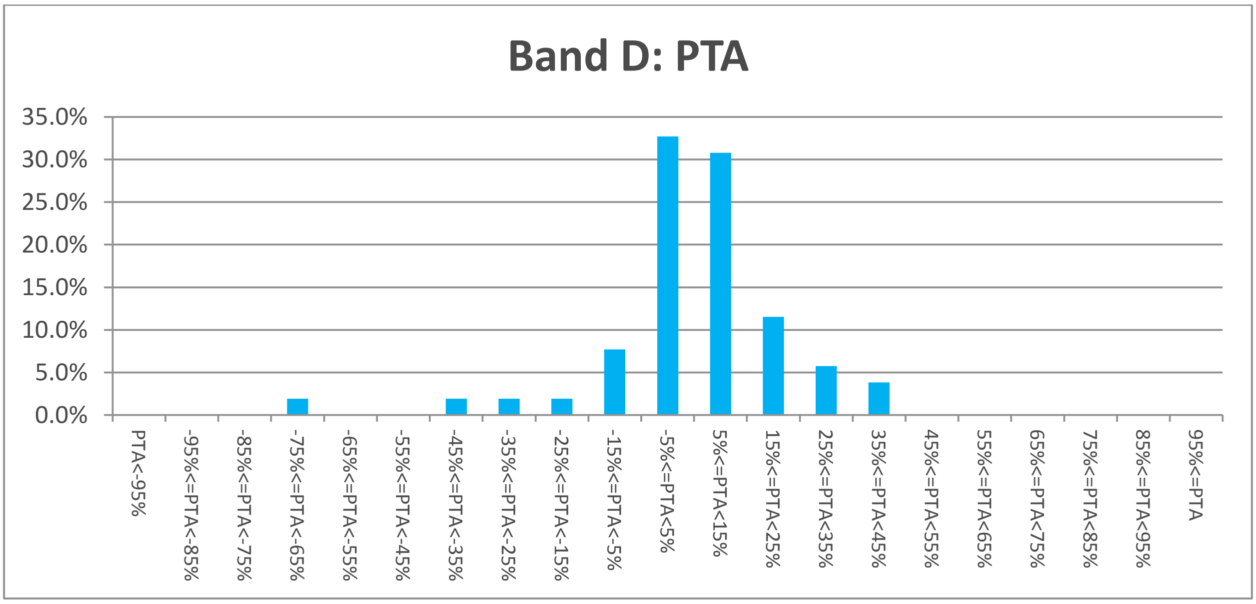
## Pay-TSR Alignment

Figure 8a-d. Distribution of RDA scores for each country band.




Band C: PTA
30.0%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
PTA<-95%
-95%<=PTA<-85%
-85%<=PTA<-75%
-75%<=PTA<-65%
-65%<=PTA<-55%
-55%<=PTA<-45%
-45%<=PTA<-35%
-35%<=PTA<-25%
-25%<=PTA<-15%
-15%<=PTA<-5%
-5%<=PTA<5%
5%<=PTA<15%
15%<=PTA<25%
25%<=PTA<35%
35%<=PTA<45%
45%<=PTA<55%
55%<=PTA<65%
65%<=PTA<75%
75%<=PTA<85%
85%<=PTA<95%
95%<=PTA


Band D: PTA
35.0%
30.0%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
PTA<-95%
-95%<=PTA<-85%
-85%<=PTA<-75%
-75%<=PTA<-65%
-65%<=PTA<-55%
-55%<=PTA<-45%
-45%<=PTA<-35%
-35%<=PTA<-25%
-25%<=PTA<-15%
-15%<=PTA<-5%
-5%<=PTA<5%
5%<=PTA<15%
15%<=PTA<25%
25%<=PTA<35%
35%<=PTA<45%
45%<=PTA<55%
55%<=PTA<65%
65%<=PTA<75%
75%<=PTA<85%
85%<=PTA<95%
95%<=PTA

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