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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 2017 (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 react not only to ISS' proposed amendment to Executive Pay Assessments (Cross-Market), but also to several compensation-related areas contained in ISS' 2016-2017 Policy Survey upon which ISS has or may issue modifications later this year. Specifically, ISS requested survey input on (1) Metrics Used in Pay-for-Performance Assessments; (2) Say-on-Pay Frequency; and (3) Executive Chair Overboarding.

At the outset, we commend ISS for accelerating the release of the proposed and final rules from historical publication dates. However, we once again reiterate that releasing new rules at the end of the year does not give companies sufficient time to react to new input or modify their programs to align with ISS standards. Such modifications would be better received had they been released earlier in the fiscal year and prior to the time compensation planning had been vetted for the year.

Executive Pay Assessments (Cross-Market)

In recognition that a growing number of companies are incorporated in one country but listed in a different country, the Proposed Policy provides guidance on how ISS may react to multiple compensation proposals on the same ballot related to the same pay program. With respect to executive compensation proposals at companies listed in the US but incorporated outside the US, ISS will assess the programs on a case-by-case basis using the following guiding principles:

- Align recommendations to avoid inconsistent recommendations on the same pay program;
- Use policy perspective of the country in which the company is listed (e.g., US Say-on-Pay [SOP] policy for proposals on executive pay); and
- Where the compensation proposal has no US policy, use the policy of the country that requires it to be on the ballot.

ISS notes that this proposal does not specifically address instances where companies are dual-listed or have dual incorporation. We believe such instances should be evaluated on a case-by-case basis taking into account first where the majority of the employee population (and particularly executives) is based, as well as where the majority of shareholders are based. Furthermore, we note that the US and UK SOP policies are not truly inconsistent—the US policy is a non-binding advisory vote while the UK policy is binding. ISS should specifically clarify that if a company is listed in the US but incorporated in the UK or another country that has a binding SOP vote, the US SOP policy will apply.

Metrics Used in Pay-for-Performance Assessments

For many years, ISS has used total shareholder return (TSR) as the sole measure to judge whether executive pay is aligned with company performance. On November 8, ISS announced inclusion of six new financial factors that will be considered in the pay for performance analysis. We commend ISS in looking beyond TSR as a sole metric of company success in assessing executive compensation. However, we are hopeful that to the extent these new factors are included in the quantitative test in 2018, weightings, industry specific factors, and use of data is transparent and publicly accessible. We would like specific insight as to whether TSR will be a separate rank or blended with the other financial measures when it is weighted. Our clients should have access to the same data that ISS uses in its analysis and the relevance of industry specific factors should be transparent. We urge ISS to avoid a "black box" methodology (similar to that used for ISS proprietary SVT caps in the equity plan analysis), which would force a company to buy a product to understand how ISS will evaluate alignment of pay and performance.

Say-on-Pay Frequency

Under the Dodd-Frank rules adopted in 2011, US companies are required to hold say-on-pay frequency (SOF) votes at least every six years, and many will hold these votes at their 2017 annual shareholder meetings. The results of the Policy Survey revealed that roughly 66% of institutional investors and 42% of non-investors favored annual SOF.

Current ISS policy provides that it will generally vote for annual advisory votes on compensation, which it believes provides the most consistent and clear communication channel for shareholder concerns about companies' executive pay programs. However, we believe that the right SOF should be assessed on a case-by-case basis and not a one-size-fits-all analysis. ISS and shareholders should consider a company's financial performance, level of SOP support at prior meetings, and existence of problematic pay practices to determine if annual SOP is the most appropriate voting mechanism. As we noted in our article "Annual Say-on-Pay: The Path to Least Resistance May Not Be the Path to Success"[1], an annual SOF does not match the cadence of long-term compensation cycles and plan design. It takes more than one year for many compensation programs to play out and if the goal is pay-for-performance over the long-term, rather than short-term, an annual SOF is simply too myopic. After six cycles of SOP, almost all of the egregious pay practices ISS targeted have been eliminated. In our view, an annual SOP is simply no longer needed for all companies in order to ensure good compensation governance. As such, we would urge ISS to consider a management proposal for biennial or triennial SOP on a case-by-case basis where the company has proposed compelling reasons that the recommended frequency supports its long-term strategies.

Executive Chair Overboarding

The Policy Survey solicited feedback on the appropriate "overboarding" standard for an executive chair who is not the company's CEO. Currently, an executive chair is considered overboarded for serving on more than five total boards. Another alternative would be to evaluate an executive chair who is not the company's CEO under the same overboarding standard that applies to the CEO. Under the current ISS benchmark policy, a CEO who serves on more than three boards (including the CEO's home company board) will be deemed to be overboarded, possibly triggering an adverse vote recommendation. A

[1] See: https://www.pearlmeyer.com/annual-say-pay-path-least-resistance-may-not-be-path-success.pdf

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majority of investor respondents (64%) favored applying the stricter CEO standard (three boards). In contrast, the majority of noninvestors (62%) preferred the more lenient standard (five boards).

We urge ISS to adopt a case-by-case evaluation on this matter, as an executive chair's role in day-to-day management, responsibilities, and compensation may vary widely among companies. Take, for example, an executive chair who has stepped down from the CEO position and is merely provide transition support for a limited period of time. Such a chair's involvement varies drastically from that of an executive chair essentially serving as a co-CEO, and as such, the former's services on more than three outside boards should not be an issue.

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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