EXECUTIVE REMUNERATION 2015: GLOBAL TRENDS

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Questions
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Agenda

PART 1 – GOVERNANCE
– What’s on the mind of CHROs
– Executive Rewards – What’s Trending?
– What’s on the Agenda for 2015

PART II – GLOBAL PAY TRENDS

Q&A
PART 1 – GOVERNANCE
What’s on the Mind of CHROs

Will our programs withstand external scrutiny?

How do we address the increasingly strong voice of shareholders and proxy advisors?

How do we balance between compliance, governance and the needs of the company?

Is TSR the right measure for all?

Executive pay and income inequality – how much is too much?

How do we avoid homogenization of our pay programs?
Executive Rewards – What’s Trending?

Shareholder voice on pay and governance

Executive pay and income inequality

Role of TSR

“One Size Fits All” Pay Programs
What’s Trending – Shareholder Voice on Pay and Governance

Increasingly Strong Voice of Shareholders Influencing Pay Programs

Europe
There has been movement towards an EU-wide mandate, in addition to UK mandates, requiring a binding vote on pay.

North America
Nonbinding vote on executive pay in the US; voluntary votes in Canada – fear of negative voting has strong influence on pay programs.

Asia
No mandates but ownership profile determines type engagement.

Australia
Nonbinding on pay however Two-Strikes rule adds punitive element to voting results.
## What’s Trending – Shareholder Voice on Pay and Governance

**Snapshot of Shareholder Say on Pay Voting Mandates Globally**

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<tr>
<th>Non-Binding Votes or No Voting Mandate</th>
<th>Binding Vote Mandates</th>
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<tbody>
<tr>
<td>US</td>
<td>Germany</td>
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<td>Japan</td>
<td>Australia</td>
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<td>China</td>
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<td>France</td>
<td>Netherlands</td>
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<td>Spain Proposed</td>
<td>Switzerland</td>
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Financial Services only
Mercer has been conducting research on the viewpoints of non-executive directors and institutional investors on engagement, the following is what we have learned

**Non-Executive Directors**
- Board members on the whole value this interaction highly and would like to see increased levels

**Institutional Investors**
- Engagement around sensitive issues should be happening early and often so that potentially divisive issues are not coming as a surprise
- Do not want to be treated like a sounding board – Companies should be able to develop acceptable proposals without large amounts of input
What’s Trending – Shareholder Voice on Pay and Governance

Engaging With Institutional Investors – A Case Study on Coca-Cola

**March 7**
Coke files proxy; new share request of 500M; fungible ratio of 5:1

**March 8**
Company issues supplemental filing explaining fungible reserve; <1% annual burn rate

**March 28**
Investor David Winters publicly opposes plan; sees dilution near 19%; provokes spirited corporate governance debate

**April 23**
Annual meeting: 83% in favor without abstentions
75% with abstentions

**April 30**
Company reportedly may make change practices to extend life of reserve

**Plan supported by ISS, GL**

**Warren Buffett (Berkshire Hathaway) abstains; expresses concern “in private”**

**Buffett position reported in media; governance debate continues**
In a press release released on October 1, 2014, the Coca-Cola company announced that it would be adopting Equity Stewardship Guidelines for the Company’s existing 2014 Equity Plan.

The guidelines were issued in response to criticism from Warren Buffett and other key shareholders.

The Guidelines:
- Extend the years shares will last by using fewer shares each year
- Increase transparency about equity awards
- Formalize practice of share repurchases to minimize dilution
- Renew commitments and open a dialogue with shareowners on compensation matters

“Shareowner engagement has produced positive results for our Company on a variety of fronts, including on compensation matters. Shareowner input on this important topic has directly led to the development of these new Guidelines, which are in line with the long-term interests of shareowners.”

Maria Elena Lagomasino, Chair of the Compensation Committee for Coca-Cola
What’s Trending – Executive Pay and Income Inequality

Pay Ratio Proposals/Mandates

US
CEO’s pay versus pay of median employee

Europe
Average directors’ pay divided by average pay for other employees

Asia / Australia
No mandates
What’s Trending – Role of TSR

What is the role of TSR in pay programs?

- In response to external pressure from shareholders, shareholder advisors and institutional investors, many organizations have adopted incentive plans based on TSR.
- Today, TSR is now one of the most prevalent measures used in incentive plans globally.
- Across organizations however, there is a growing sentiment that TSR–based plans are not a cure-all for the alignment of pay and performance.
- For these and other reasons, organizations globally have been considering if the focus on TSR has skewed too high and if other measures of sustainable, long-term performance are a better fit for their organization.
What’s Trending – “One Size Fits All” Pay Programs

Pressures from regulators, shareholders, media etc. have led to homogenized approaches to pay

• Faced with heightened scrutiny of pay programs and practices, many companies attempt to stay ‘under the radar’ by adopting “one size fits all” executive pay programs

• Companies adopt these programs and practices because they require lower levels of explanation, justification and provide lower risk of outside scrutiny

• Unfortunately, this approach can lead to suboptimal results as it fails to support unique business strategies and circumstances and thereby does little to stimulate real, long-term value creation
WHAT’S ON THE AGENDA FOR 2015
What’s on the Agenda for 2015

Strategically engage with shareholders and proxy advisors

Prepare for pay ratio disclosure

Clarify the pay story by leveraging global best practices for disclosure
What’s on the Agenda for 2015

- Strategically engage with shareholders and proxy advisors

- Develop action plan to set investor expectations

- Start early to establish dialogue and communication

- Provide visually appealing and transparent disclosures of executive compensation arrangements

- Understand shareholder base and their voting pattern

- Identify and understand investor hot buttons, red flags, and expectations

- Disclose the engagement process
What’s on the Agenda for 2015

Prepare for pay ratio disclosure

- Proactively plan for and manage how the organization pay ratio will be perceived with both internal and external audiences
- Develop preliminary calculations of the ratio
- Begin investigation of your organization’s readiness
- Consider improvements to the global compensation & benefits structure needed to efficiently calculate these types of ratios
What’s on the Agenda for 2015

- Be concise, explain the rationale for pay decisions, present qualitative and quantitative information
- Disclose changes from year to year, and impact of corporate developments
- Make it a messaging document, tell your pay and performance story
- Work with inter-disciplinary task-force to prepare, and give Committee a sense of timing and illustrative examples
- Don’t focus only on the “What”, “When”, “How”, while forgetting the “Why”
- Don’t make the disclosure too long and repetitive

Components:

- Objectives of the compensation program
- What is it designed to reward?
- Describe each element of compensation
- How is the amount for each element determined?
- How do the Committee’s decisions fit into the company’s overall compensation objectives
- What are the performance criteria
- Decisions taken in last year
What’s on the Agenda for 2015

General Electric
2014 Pay elements table

Clarify the pay story by leveraging global best practices for disclosure - Illustrations
What’s on the Agenda for 2015

ExxonMobil
12-page brochure “Executive Compensation Overview 2014”

Clarify the pay story by leveraging global best practices for disclosure - Illustrations
What’s on the Agenda for 2015

Chesapeake Energy
Graphics include ring for at-risk pay elements to demonstrate how much pay is performance-based and aligned with shareholders

Clarify the pay story by leveraging global best practices for disclosure - Illustrations
PART II - GLOBAL PAY TRENDS
Global Pay Trends

Base Salary

North America
- Base salaries are expected to increase by 3.0% in 2015

Europe
- Base salaries are expected to increase by 0% to 3% in 2015
- Base salary increases, as in years past, are lower than in other regions of the world

Asia
- Base salary increases in 2015 are expected to be lower than in prior years when increases ranged from 2% to 13%
- On average, executive salaries in Asia have overtaken those of their European and US counterparts

Australia
- Increases for 2015 are likely to be lower than the average 3.5% increase in 2014
Global Pay Trends

Short-Term Incentives

North America
- Actual bonus payments have increased slightly when compared to the prior year

Europe
- Actual bonus payments have increased marginally when compared to the prior year

Asia
- Target bonus opportunities (as a percent of base) are generally on the rise
- Hong Kong saw a year over year uptick of nearly 5%

Australia
- Focus by shareholder advisory firms on the use of performance measures (e.g., underlying earnings) that are opaque
Global Pay Trends

Long-Term Incentives

North America
- Use of performance share plans are increasing
- Use of stock options is on the decline but still prevalent

Europe
- Majority of companies have an LTI plan
- Continued movement towards simplification with most companies using only one LTI vehicle

Asia
- LTI award levels are low when compared to other markets however, current levels are increasing

Australia
- Focus on methodologies used to allocate LTI awards – there is concern that the current approach used understates award value
Global Pay Trends – Long-Term Incentives

Long term incentive plan vehicles

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In Conclusion

Governance = Dialogue & Trust Building
• Dialogue and Engage with your Compensation Committee Members and Shareholders
• Plan ahead for possible changes such as the pay ratio and the binding vote
• The process around design decisions is often iterative so listening to interested parties and being flexible is important

Executive Compensation = Agent of Change
• Executive pay programs can be a source of competitive advantage if you can clearly show why your company’s strategy deserves a different approach to compensation

To Change = To Remain the Same
• Businesses are going through an extraordinary amount of change so having a compensation strategy that stands still is untenable
• Scenario plan for major changes to your business and the impact that will have on compensation
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