ClearBridge Compensation Group

The ClearBridge 100 Report

January

2017

Non-Employee Director Compensation

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This *ClearBridge 100* Report presents findings on compensation levels and practices for non-employee directors among the "*ClearBridge 100.*" The *ClearBridge 100* is comprised of 100 S&P 500® companies to provide data representative of compensation practices and trends among large companies.

The role of the director continues to evolve in the face of today's corporate governance and oversight environment. Continued trends in director compensation such as the decline of meeting fees, as well as new trends such as director compensation limits and lead director compensation increases, bring director compensation into alignment with the role of today's director. Looking forward to 2017 and beyond, we can expect to see further alignment of director compensation programs with directors' roles in the midst of the evolving governance landscape.

Key Findings

Key findings from this *ClearBridge 100* Report include:

Board Compensation

- Median total board compensation levels, including cash and equity, increased 2% from 2015 to 2016
- Board meeting fee prevalence continues to decline, falling from 19% of companies in 2015 to 15% in 2016, though the median fee per meeting increased by 14% from 2015 to 2016 (from $1,750 to $2,000)

Compensation for Committees and Board Leadership

- Most companies provide additional compensation to the chairs of the Audit, Compensation, and Nominating & Governance Committees, typically in the form of cash retainers, whereas prevalence of providing additional retainers for committee members varies by committee
- Committee chair cash retainers continue to be ~2x committee member cash retainers
- Additional compensation for Lead Directors increased at median from $25,000 in 2015 to $30,000 in 2016
- Median value of additional compensation for Non-Executive Chairs remained flat in 2016 at $173,000

Director Compensation Limits

- The practice of setting compensation limits for directors as part of shareholder-approved stock plans is becoming more prevalent as a result of shareholder lawsuits. 32% of companies in the *ClearBridge 100* have director compensation limits, 84% of which adopted the limits in 2015 or 2016
- The most common approach is equity-only limits (81% of companies), although some companies use total compensation limits (19% of companies)

Equity Design Features

- Time-vested restricted stock units continue to be the most common equity grant type awarded to directors, with 66% of companies granting them to directors in 2016, most often with a one-year vesting period (56%)
- Most companies allow directors to defer a portion of their annual equity (68%) and cash retainers (65%)

Stock Ownership Guidelines and Holding Requirements

- Among the companies with a stock ownership guideline for directors (87%), a guideline of 5x the annual board retainer continues to be the most prevalent practice at 71% of companies in 2016
- A minority of companies (27%) require directors to hold shares of company stock for a specified length of time before selling, typically until a stock ownership guideline has been achieved

The following pages present the supporting detail underlying these key findings, along with additional information and analyses.

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Analysis Scope and Methodology

This report analyzes the value and design of non-employee director compensation programs, as disclosed in the 2015 and 2016 proxy statements for each of the *ClearBridge 100* companies.[1] The results have been aggregated in this report to provide a broad-market view of director compensation practices and trends.

Design features in this report are either expressed as a percentage of *ClearBridge 100* companies in total, or as a percentage of companies with a particular type of practice. In certain charts and tables, totals may not add up to 100% due to companies that incorporate more than one form of practice. To ensure a meaningful sample size, percentile values are only calculated if there are a minimum of five data points.

In calculating total cash compensation and total compensation for companies with meeting fees, each company's per-meeting fee was multiplied by the median number of board or committee meetings of the entire sample in order to reflect a standardized/typical compensation level. Initial equity grants have been annualized over eight years, reflective of the average director tenure.

Definitions

Provided below are definitions for terms used throughout the remainder of this report:

- ***Cash Retainers*** are cash fees paid to directors for service on the board or a committee
- ***Meeting Fees*** are cash fees paid to directors on a per-meeting basis
- ***Total Cash Compensation*** includes cash retainers plus total meeting fees, calculated assuming a standardized number of meetings across *ClearBridge 100* companies
- ***Initial Equity Awards*** are one-time equity awards granted to directors upon their initial appointment to the board
- ***Total Compensation*** includes total cash compensation plus the grant value of equity awards
- ***Total Board Cost*** represents the cost the company incurs by compensating its non-employee directors
- ***Time-Vested Restricted Stock/Units*** are shares or share units representing actual shares of a company's common stock with vesting dependent on the lapse of a pre-specified time period (the vesting period)
- ***Time-Vested Stock Options*** are rights to purchase company stock at a pre-specified price (exercise price) over a set time period (option term) with vesting dependent on a pre-specified time period (vesting period)
- ***Deferred Share Units*** are share units representing actual shares of a company's common stock with vesting and settlement dependent on the lapse of pre-specified time periods (the vesting period and deferral period)
- ***Common Stock*** are shares of a company's stock
- ***Performance-Vested Long-Term Incentives ("Performance-Vested LTI")*** are awards of cash or equity that vest over a period of longer than one year and are dependent on the achievement of performance objectives
- ***Stock Ownership Guidelines*** are requirements for directors to own a specific number or value of shares
- ***Holding Requirements*** are requirements for directors to retain a certain amount or percentage of vested shares
- ***Director Compensation Limit*** restricts the maximum annual cash, equity, or total fees that can be paid to a director in any given year

[1] Data Source: Main Data Group

BOARD COMPENSATION

All *ClearBridge 100* companies provided some form of compensation to their non-employee directors in 2016. The following section analyzes the compensation levels received by non-employee directors for service on the board.

Board Compensation Elements and Level

The vast majority of companies continue to provide directors with a cash retainer (98% of companies) and an annual equity grant (99% of companies) for board service. Consistent with trends observed over the past several years, the prevalence of meeting fees declined from 19% of companies in 2015 to 15% in 2016. This decline reflects a growing focus on compensating directors for their role rather than their attendance at meetings. As a result, companies are shifting towards a simpler structure of cash and equity retainers.

Median total board compensation increased 2% in 2016, from $250,000 to $254,924. Although a minority practice, per meeting fees increased by 14% from $1,750 to $2,000 at the median for companies with the practice.

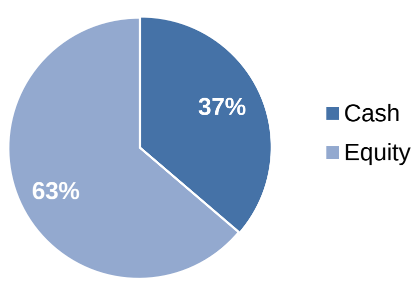
	2015		2016		
Compensation Element	**Prevalence**	**Median Value**	**Prevalence**	**Median Value**	***% Change***
Cash Retainer	97%	$85,000	98%	$91,000	*7%*
Meeting Fees	19%	$1,750	15%	$2,000	*14%*
Total Cash(1)	-	$90,000	-	$94,250	*5%*
Equity: Grant Value(2)	99%	$150,000	99%	$154,977	*3%*
Total Compensation	-	$250,000	-	$254,924	*2%*

Note: Percentile values for individual elements of compensation (cash retainers, meeting fees, and equity) are calculated including only those companies that provide that element. Percentile values for aggregate compensation (total cash compensation and total compensation) are calculated including all companies
(1) Total cash is calculated assuming eight board meetings during the year, which was the median number of board meetings among *ClearBridge 100* companies
(2) Equity grant value is calculated including annual equity grants, as well as initial equity grants that have been annualized over an eight-year period

Mix of Cash vs. Equity

The majority of compensation for board service (63%) is delivered through equity awards, with the remainder delivered through cash retainers and meeting fees, consistent with the average cash/equity mix in 2015.

Average Cash/Equity Mix of Total Board Compensation



COMPENSATION FOR COMMITTEES & BOARD LEADERSHIP

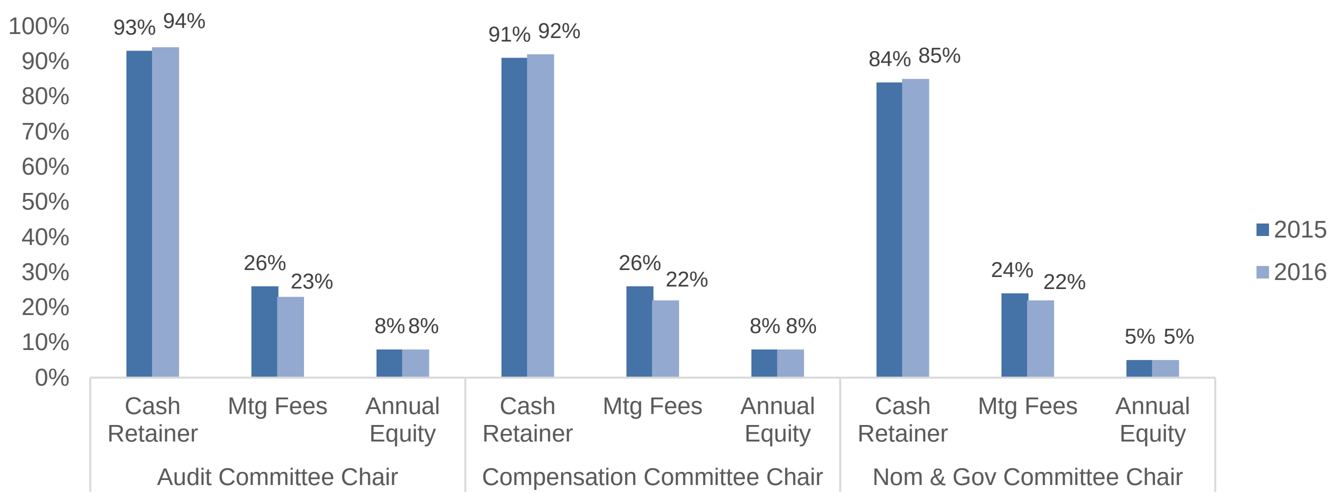
This section provides information on compensation delivered to committee chairs and members as well as board leaders in addition to compensation for board membership.

Committee Compensation

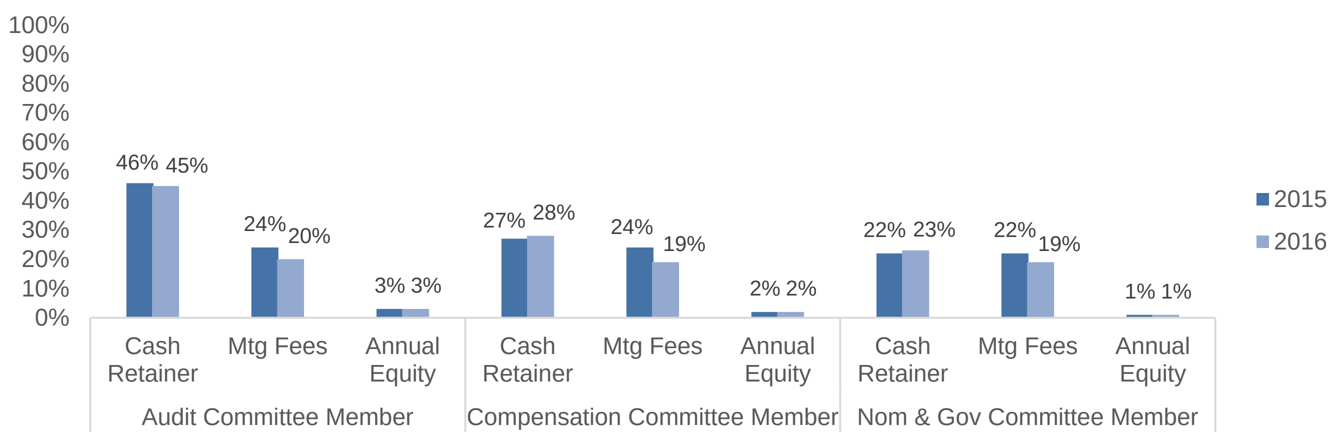
For committee chairs, a majority of companies provide additional compensation to one or more committee chairs, with specific prevalence varying by committee. For committee members, prevalence of additional compensation (e.g., member retainer or meeting fees) to committee members varies by committee.

From 2015 to 2016, the number of companies providing additional compensation to committee chairs and members remained fairly consistent. The most typical element of committee compensation continues to be a cash retainer. The use of meeting fees to compensate both chairs and members declined from 2015 to 2016.

Committee Chair Compensation Elements: % of Companies



Committee Member Compensation Elements: % of Companies



The Audit Committee is typically the highest-paid committee, followed by the Compensation Committee, and then by the Nominating and Governance Committee. Across committees, committee chair cash retainers continue to be set at ~2x committee member cash retainers. From 2015 to 2016, cash retainers remained flat for all committees at both the chair and member levels.

		2015 Median Value		2016 Median Value	
		Chair	Member	Chair	Member
Audit Committee	**Cash Retainer**	$25,000	$10,000	$25,000	$10,000
	Meeting Fees	$1,625	$1,500	$1,750	$1,750
	Annual Equity	$16,875	$15,000	$16,875	$15,000
	Total Add'l Comp (1)	$25,000	$14,550	$25,000	$15,000
Compensation Committee	**Cash Retainer**	$20,000	$10,000	$20,000	$10,000
	Meeting Fees	$1,500	$1,500	$1,625	$1,575
	Annual Equity	$15,000	$13,750	$15,000	$13,750
	Total Add'l Comp (1)	$20,000	$10,000	$20,000	$12,000
Nominating and Governance Committee	**Cash Retainer**	$15,000	$7,500	$15,000	$7,500
	Meeting Fees	$1,500	$1,500	$1,600	$1,575
	Annual Equity	$10,000	$10,000	$11,250	$10,000
	Total Add'l Comp (1)	$15,000	$7,500	$17,500	$8,250

Note: Percentile values for individual elements of compensation (cash retainers, meeting fees, and equity) are calculated including only those companies that provide that element. Percentile values for total compensation are calculating only for those companies that provide additional compensation for these roles

(1) Total additional compensation is calculated based on a standard number of committee meetings for all companies: 9 Audit Committee meetings, 8 Compensation Committee meetings, and 5 Nominating and Governance Committee meetings. These meeting numbers reflect the median number of committee meetings among *ClearBridge 100* companies in 2016

Board Leadership: Lead Independent Director

68% of companies in 2016 have an independent director serving as the Lead Independent Director, a slight decrease from 2015 (71%). Additional compensation for the Lead Independent Director role continues to be delivered primarily through a cash retainer, which increased at the median from $25,000 in 2015 to $30,000 in 2016.

	Lead Independent Director			
	2015		2016	
Compensation Element	Prevalence	Median $ Value	Prevalence	Median $ Value
Cash Retainer	80%	$25,000	82%	$30,000
Per-Meeting Fee	n/a	n/a	n/a	n/a
Annual Equity	16%	$22,500	7%	$20,000
Total Add'l Comp	84%	$25,000	82%	$30,000

Board Leadership: Non-Executive Chair

A minority of companies have a Non-Executive Chair (36% in 2016 and 2015). The median value of additional compensation for Non-Executive Chairs remained relatively flat in 2016 at $173,000.

	Non-Executive Chair			
	2015		2016	
Compensation Element	Prevalence	Median $ Value	Prevalence	Median $ Value
Cash Retainer	91%	$107,000	89%	$100,000
Per-Meeting Fee	n/a	n/a	n/a	n/a
Annual Equity	41%	$110,667	43%	$100,000
Total Add'l Comp	94%	$172,500	95%	$173,000

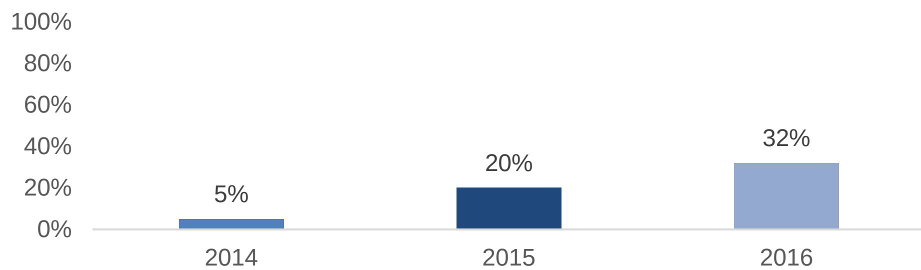
DIRECTOR COMPENSATION LIMITS

This section provides information on Director Compensation Limit trends among the *ClearBridge 100* companies.

Director Compensation Limits

As a result of recent shareholder lawsuits, Boards of Directors are faced with the issue of attracting and retaining qualified directors while setting their own pay. These concerns have prompted an increasing number of companies to adopt pay limits for individual non-employee directors in their shareholder-approved stock incentive plans. Of the 100 companies comprising our study, 32% have implemented a director compensation limit, of which 84% have adopted their limits in the last two years (2015 and 2016).

Prevelance of Director Compensation Limits: % of Companies



Director compensation limits are structured in one of three ways: equity-only fixed-share limits, equity-only fixed-dollar limits, or total compensation limits, which can either be structured as a single total compensation limit or as separate cash-only and equity-only limits. Overall, fixed-dollar equity limits were the most prevalent practice among companies using director compensation limits (50% of companies), followed by fixed-share equity limits (31% of companies), and total compensation limits (19% of companies).

	Equity-Only Limit		Total Compensation Limit
	Fixed-Dollar	Fixed-Share	
Number of Companies	16 of 32	10 of 32	6 of 32
Percent of Companies	50%	31%	19%
Median Value	$500,000	n/a	$1,000,000
Limit as a Multiple of Equity Retainer or Avg. Comp. at the Median [(1)]	3.13	n/a	3.30

(1) Equity-only limit multiple calculated based on dollar value of equity-only limit as a multiple of equity retainer; total compensation limit multiple calculated based on dollar value of the total compensation limit as a multiple of average director compensation

EQUITY DESIGN FEATURES

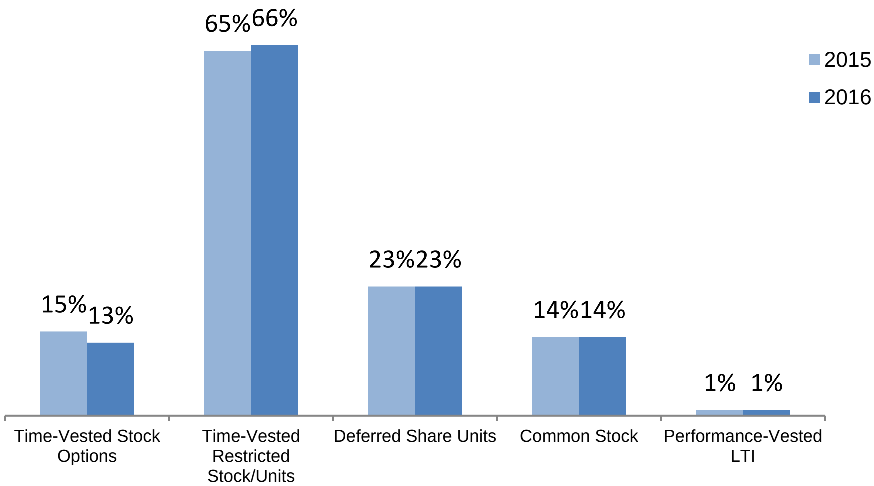
Grant Approach

Nearly all companies (99%) provide an annual equity grant to non-employee directors. Initial equity awards, which are one-time awards granted upon a director's election to the board, remain a minority practice, with 15% of companies granting initial awards in 2016, consistent with prior years. The remainder of this section provides data for annual equity grants.

Prevalence of Equity Vehicles

Equity grants to directors are most commonly granted in the form of time-vested restricted stock/units (66% of companies). Deferred share units are the second most common grant type at 23%.

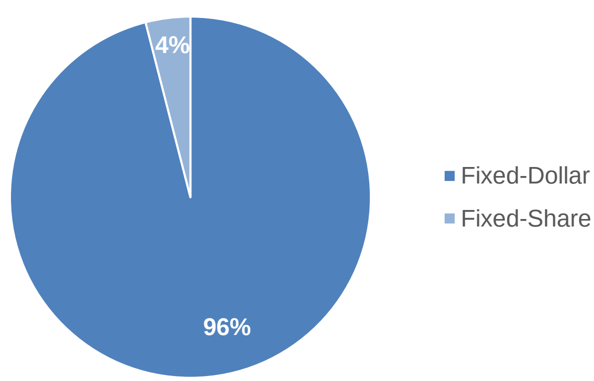
Prevelance of Annual Equity Vehicles: % of Companies



Determination of Equity Grants: Fixed-Dollar vs. Fixed-Share

Most companies that grant equity to directors use a fixed-dollar approach, meaning the grant value of equity to be delivered is fixed and the number of shares is determined by dividing the dollar value by the stock price at grant. 96% of companies used a fixed-dollar approach in 2016, an increase from 90% of companies in 2015.

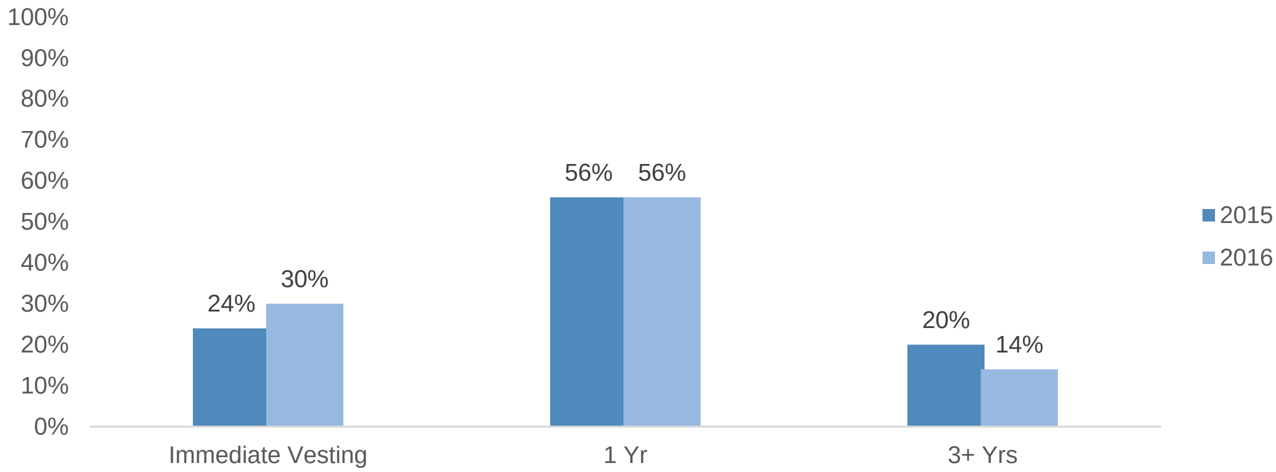
Prevalence of Fixed-Dollar vs. Fixed-Share: % of Companies



Vesting of Equity Grants

Vesting periods of one year continue to be the majority practice (56%) among companies granting annual equity. The prevalence of immediate vesting increased from 24% in 2015 to 30% in 2016, while the prevalence of a 3+ year vesting period decreased from 20% in 2015 to 14% in 2016.

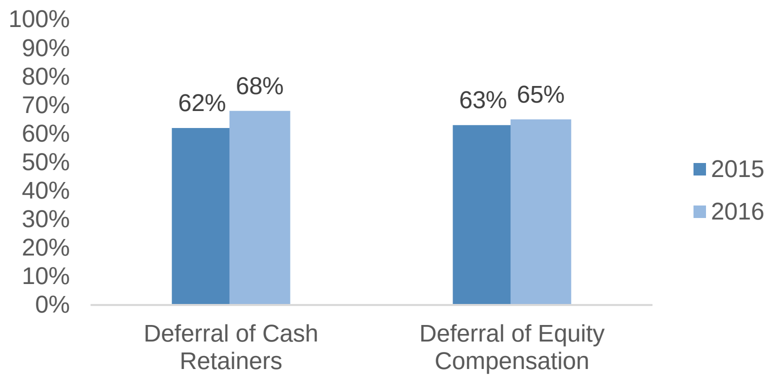
Prevalence of Annual Equity Vehicles Vesting Types: % of Companies



Prevalence of Deferral Features

As annual equity grant values increase over time, deferral features are becoming increasingly common in non-employee director compensation programs. Deferral features are commonly used to allow for more effective tax planning for directors. Most *ClearBridge 100* companies allow their directors at least one of two types of deferrals: deferral of cash retainers (offered by 68% of companies) or deferral of equity compensation (offered by 65% of companies).

Prevalence of Deferral Features: % of Companies



STOCK OWNERSHIP GUIDELINES

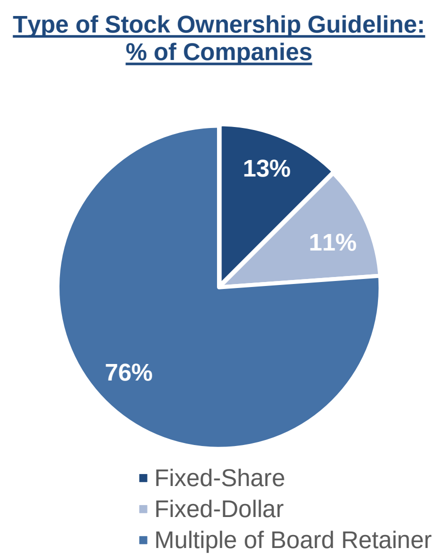
&

HOLDING REQUIREMENTS

Stock Ownership Guidelines

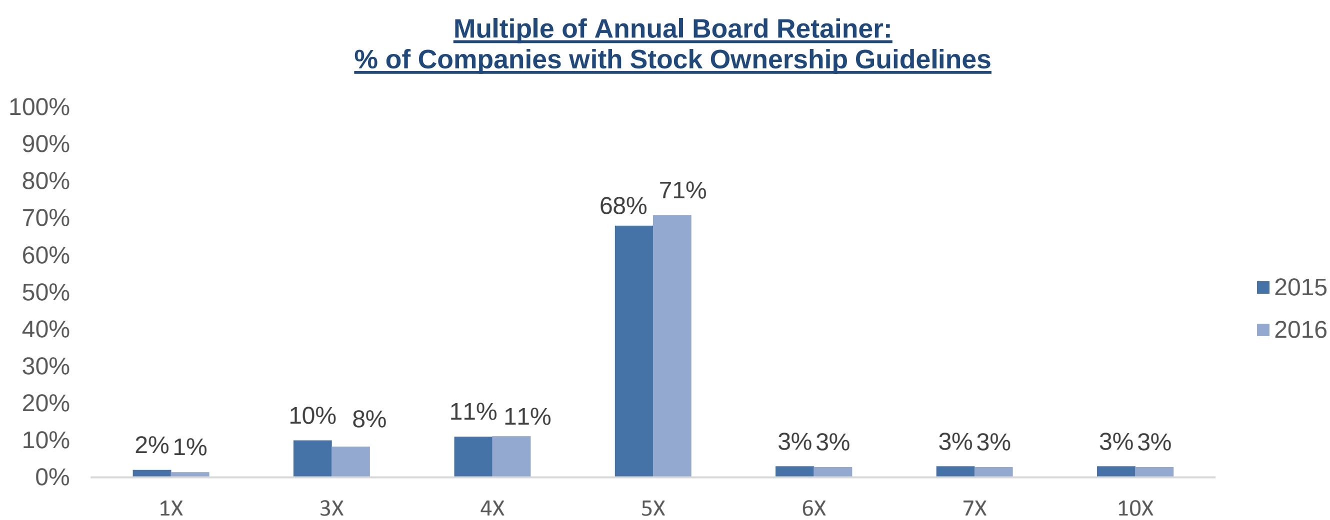
Prevalence and Type of Guideline

Stock ownership guidelines are a common practice, with 87% of companies requiring directors to achieve a specific ownership guideline. Most stock ownership guidelines are expressed as a multiple of the board retainer. A smaller portion of companies define the ownership requirement as a fixed-share or a fixed-dollar amount.



Guideline Levels

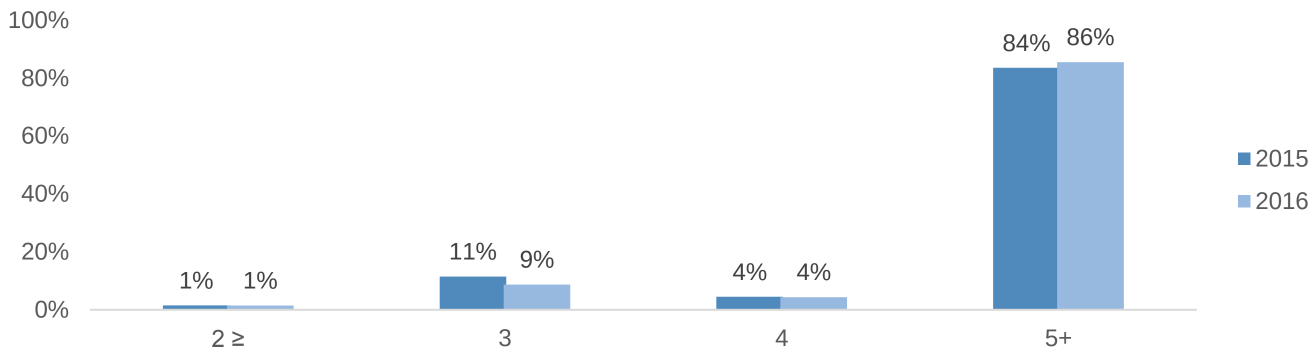
Consistent with 2015, the most prevalent stock ownership guideline is a multiple of 5x the annual board retainer. In 2016, among companies disclosing stock ownership guidelines, the prevalence of a 5x multiple increased while the prevalence of other multiples either decreased or remained flat.



Years to Achieve Guideline

Most companies (86%) give directors five or more years to achieve the company's specified stock ownership guideline, aligned with the typical guideline multiple.

Years to Achieve Guidelines:
% of Companies with Stock Ownership Guidelines

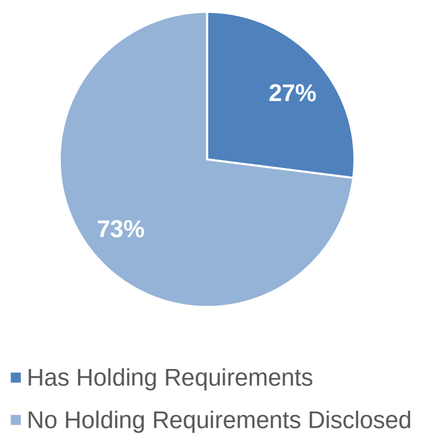


Stock Holding Requirements

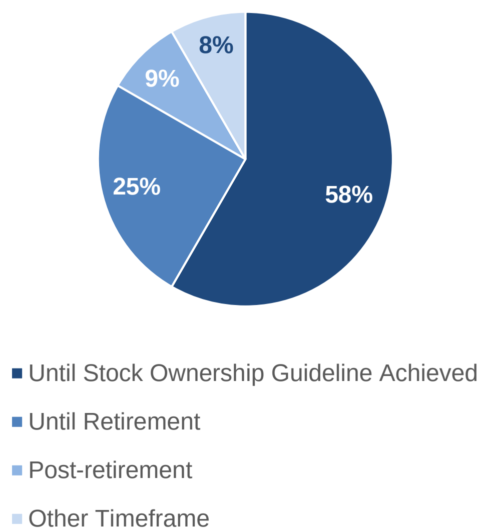
Prevalence

A minority of companies (27%) require directors to hold shares of company stock for a specified length of time before selling. Among the companies with holding requirements in place, over half require directors to hold shares until they have satisfied the stock ownership guideline, after which directors may sell any stock in excess of the guideline. 34% of companies with holding requirements require directors to either hold stock until retirement (25%) or hold stock post-retirement (9%).

Prevalence of Holding Requirement:
% of Companies



Holding Requirement Timeframe:
% of Companies



ClearBridge 100 Composition

Overview of the *ClearBridge 100*

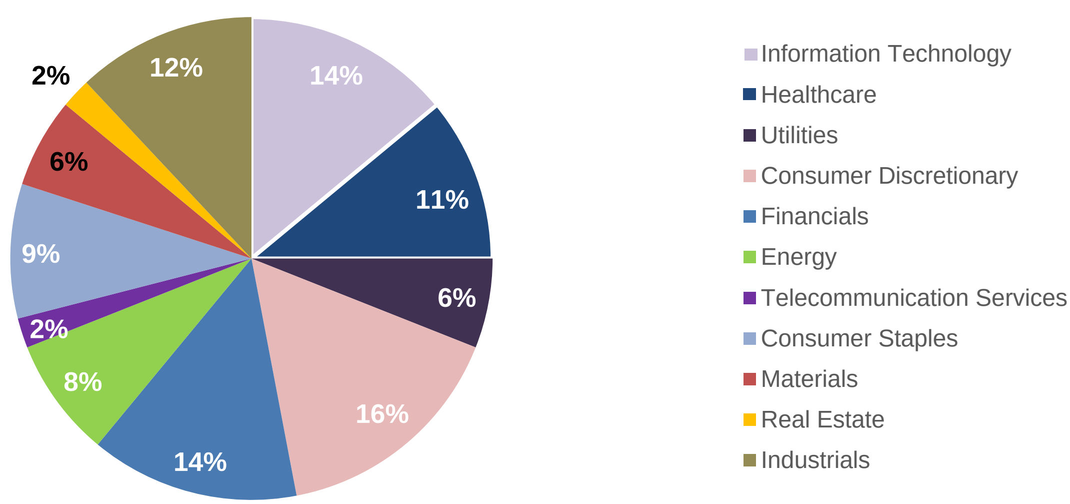
The *ClearBridge 100* consists of 100 companies in the S&P 500® Index, selected to roughly approximate the industry composition and size of the S&P 500® in order to provide a representation of the broad US market. See the following pages for a list of the companies included in the analysis.

Characteristics of ClearBridge 100

	FYE 2015 Revenue ($ Millions)	Market Value as of 12/31/2015 ($ Millions)
75th Percentile	$23,538	$65,425
Median	$11,260	$27,729
25th Percentile	$5,975	$12,571

ClearBridge 100 Industry Composition

2016 *ClearBridge 100* Industry Prevalence



Company	Industry
Adobe	Information Technology
Aetna	Healthcare
AGL Resources	Utilities
Akamai Technologies	Information Technology
Allergan plc	Consumer Discretionary
Alphabet	Information Technology
Amazon.com	Consumer Discretionary
American Express	Financials
Amgen	Healthcare
Anadarko Petroleum	Energy
Aon	Financials
AT&T	Telecommunication Services
Avon Products	Consumer Staples
Baker Hughes	Energy
Ball	Materials
Bank of New York Mellon	Financials
BB&T	Financials
Biogen	Healthcare
BlackRock	Financials
BorgWarner	Consumer Discretionary
Boston Properties	Real Estate
Boston Scientific	Healthcare
Bristol-Myers Squibb	Healthcare
C. R. Bard	Healthcare
CBRE Group	Real Estate
Charles Schwab	Financials
Chubb Ltd	Financials
Cincinnati Financial	Financials
Coca-Cola Company	Consumer Staples
Colgate-Palmolive	Consumer Staples
CONSOL Energy	Energy
Consolidated Edison	Utilities

Company	Industry
Corning	Information Technology
CVS Health	Consumer Staples
Danaher	Healthcare
Denbury Resources	Energy
Discovery Communications	Consumer Discretionary
Dominion Resources	Utilities
Dow Chemical	Materials
Eaton Corporation	Industrials
eBay	Information Technology
Ecolab	Materials
EMC	Industrials
Equifax	Industrials
Exelon	Utilities
Exxon Mobil	Energy
FMC Technologies	Energy
Fossil Group	Consumer Discretionary
Frontier Communications	Telecommunication Services
General Electric	Industrials
Goldman Sachs Group	Financials
Harley-Davidson	Consumer Discretionary
Hershey Company	Consumer Staples
Hess	Energy
IBM	Information Technology
Illinois Tool Works	Industrials
Intel	Information Technology
JPMorgan Chase	Financials
Juniper Networks	Information Technology
Kellogg	Consumer Staples
Kraft Heinz	Consumer Staples
L Brands	Consumer Discretionary
M&T Bank	Financials
Masco	Industrials

Company	Industry
Mattel	Consumer Discretionary
McDonald's	Consumer Discretionary
Merck & Co.	Healthcare
Moody's	Financials
Motorola Solutions	Information Technology
Mylan	Healthcare
NASDAQ, INC.	Financials
Newell Rubbermaid	Consumer Discretionary
Newmont Mining	Materials
NiSource	Utilities
NVIDIA	Information Technology
PACCAR	Industrials
Pentair	Industrials
PepsiCo	Consumer Staples
Pfizer	Healthcare
Pioneer Natural Resources	Energy
PPL	Utilities
Priceline Group	Consumer Discretionary
Quanta Services	Industrials
Quest Diagnostics	Healthcare
Sherwin-Williams Company	Materials
Starwood Hotels & Resorts Worldwide	Industrials
Target	Consumer Discretionary
Teradata	Information Technology
Texas Instruments	Information Technology
Tiffany	Consumer Discretionary
Time Warner	Consumer Discretionary
United Technologies	Industrials
UPS	Industrials
V.F. Corporation	Consumer Discretionary
Wal-Mart	Consumer Staples
WestRock	Materials
Xerox	Information Technology
Yahoo!	Information Technology
YUM! Brands	Consumer Discretionary
Zions Bancorporation	Financials

About ClearBridge

ClearBridge Compensation Group is an independent consulting firm providing advice to boards of directors and senior management on the design of effective executive and incentive compensation programs with a focus on alignment with shareholders, linkage with business strategy, and adherence to strong governance standards.

Our consultants have extensive experience and expertise in executive compensation program design. Our work spans across industries for both publicly-traded and privately-held companies. Our aim is to ***establish transparent connections between management and shareholders*** and ***understandable links between performance and compensation.***

We provide an array of compensation services to meet the individual needs of our clients. A sample of our consulting services includes:

Total Compensation Review and Design

Annual Incentive Design

Long-term Incentive/Equity Compensation Design

Board of Director Compensation

Pay-for-Performance Assessment

Say-on-Pay Preparation and Shareholder Engagement

Transactional Compensation Design (e.g., IPOs, M&A)

This report was authored by Arnaldo Ulaj, Jordan Dion, and Henri Halilaj. For questions specific to this *ClearBridge 100* report, or for more information on ClearBridge Compensation Group or any of the services outlined above, please visit our website or contact our New York City office at:

515 Madison Avenue
32nd Floor
New York, NY 10022
212-886-1022
www.ClearBridgeComp.com

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515 Madison Ave, 32nd Floor New York, NY 10022 ▪ 212 886 1022 ▪ www.ClearBridgeComp.com