

Annual & Long- Term Incentive Plan Design

June

2019

The ClearBridge 100 Report





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This *ClearBridge 100* Report presents findings on annual incentive plan (“AIP”) and long-term incentive (“LTI”) plan design practices for executives in the “*ClearBridge 100*.” The *ClearBridge 100* is comprised of 100 S&P 500® companies to provide data representative of compensation practices and trends across the broad US market.

Companies continue to critically evaluate their incentive plan design and performance measurement approach, aiming to link pay with performance and create alignment with long-term shareholder value creation. As no one measure or vehicle perfectly aligns companies’ compensation programs with their short- and long-term goals, companies are using multiple performance metrics and multiple LTI vehicles to diversify their compensation programs. This *ClearBridge 100* Report studies the features of both annual and long-term incentive plans to provide a comprehensive overview on executive incentive design in the broad market.

Key Findings

Key findings from this *ClearBridge 100* Report include:

Annual Incentive Plans

- Most companies (90%) use multiple AIP performance measures, with the use of three performance measures being most prevalent in 2018 (41% prevalence).
- The most common AIP performance measure is earnings (92%), with EPS as the most prevalent earnings metric. Revenue has grown in prevalence in recent years and is now the second most common measure (51% in 2018 vs. 42% in 2016).
- Performance is almost always measured on an absolute basis (93%), as opposed to a relative basis against an external peer group or index.
- A majority of companies (61%) set their maximum AIP payout opportunity at 200% of target.

Long-Term Incentive Plans

Vehicles/Mix

- 86% of *ClearBridge 100* companies use multiple LTI vehicles, with the use of two vehicles being the most prevalent practice (54%).
- Nearly all companies use some form of performance-vested LTI (94%). The market continues to trend toward performance shares (“PS”) and performance stock units (“PSUs”), which are the most common performance-vested vehicles.
- The use of time-vested restricted stock/units (64% in 2018) increased over the last three years while the use of time-vested stock options/SARs (51% in 2018) declined.

Time-Vested Award Design

- Three-year vesting periods are most prevalent for time-vested awards (66% for time-vested restricted stock/units and 57% for time-vested stock options/SARs).
- Most time-vested stock options/SARs (88%) and time-vested restricted stock/units (80%) vest ratably over the vesting period.





Performance-Vested Award Design

- The use of three-year performance periods continues to be the prevailing market practice (89%).
- The majority of companies (68%) use multiple LTI performance measures; 38% of companies use two LTI performance measures, which was the most common approach.
- The use of a stock-based measure, like total shareholder return (“TSR”), continued to be the most prevalent measure in 2018 (64% of companies), followed by earnings (45%). 24% of companies use TSR as a modifier in their performance-vested LTI awards.
- 52% of companies measure LTI performance using a mix of absolute and relative performance measures. The majority of relative measures are compared to a peer group (56%), as opposed to a broad market or industry index.
- Most companies set their maximum LTI payout opportunity at 200% of target (64%).

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

Analysis Scope and Methodology

This report analyzes the design of annual and long-term incentive plans as disclosed in proxy statements for each of the *ClearBridge 100* companies. The focus of this study is standard executive incentive programs and only includes data on the core compensation programs (i.e., special one-time awards are not included).

The design features of each incentive award were reviewed based on information disclosed in proxy statements for each of the *ClearBridge 100* companies; 2016, 2017, and 2018 refer to proxy statements filed in 2016, 2017, and 2018, respectively. The results were then aggregated and analyzed to provide a broad-market view of executive incentive plan practices and trends. Information in this report is presented in summary form and is either expressed as a percentage of *ClearBridge 100* companies in total, or as a percentage of companies with a particular type of award. In certain charts and tables presented throughout the report, totals may not add up to 100% due to programs/awards that incorporate more than one practice.

Definitions

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

- ***Annual Incentive Plans*** are awards (typically cash) that are paid based on one year of performance.
- ***Time-Vested Long-Term Incentives (“Time-Vested LTI”)*** are awards of cash or equity that vest over a time period of greater than one year. The categories of Time-Vested LTI analyzed are:
 - ***Time-Vested Restricted Stock/Units*** are shares or share units representing a company’s common stock with vesting dependent on the lapse of a pre-specified time period (the vesting period). Time-vested restricted stock/units may be settled in either cash or stock.
 - ***Time-Vested Stock Options*** are rights to purchase company stock at a pre-specified price (the exercise price) over a set time period (the option term) with vesting dependent on the lapse of a pre-specified time period (the vesting period).



- **Time-Vested Stock Appreciation Rights (“SARs”)** function similarly to stock options; however, at time of exercise, the executive receives the value of the difference (the spread value) between the exercise price and the then-current stock price in either cash or stock of equivalent value.
- **Performance-Vested Long-Term Incentives (“Performance-Vested LTI”)** are awards of cash or equity that vest over a period greater than one year dependent on the achievement of pre-established performance objectives. The categories of Performance-Vested LTI analyzed are:
 - **Performance Shares/Units** are shares or share units representing a company’s common stock with vesting dependent on the achievement of pre-established performance objectives. Performance shares/units may be settled in either cash or stock. Performance shares/units consist of one of the following vehicles:
 - **Performance Shares/Units (w/ Upside)** are performance shares/units that have a specified target number of shares/units with the potential to earn a greater or lesser amount dependent on performance against goals.
 - **Performance Shares/Units (All-or-Less)** are performance shares/units that can be earned in full, or a lesser amount, dependent on performance against goals.
 - **Performance Cash** awards have a specified target dollar amount with the potential to earn a greater or lesser amount dependent on performance against goals.
 - **Performance-Vested Stock Options** are rights to purchase company stock at a pre-specified price (the exercise price) over a set time period (the option term) with vesting dependent on the achievement of pre-established performance objectives. Performance-vested stock options can be earned in full or a greater or lesser amount dependent on performance against goals.
- **Modifiers** are performance measures in AIP and LTI plans utilized to cap or modify performance award payouts as a result of performance over the respective performance period, as opposed to a weighted measure.





ANNUAL INCENTIVE PLAN DESIGN FEATURES





ANNUAL INCENTIVE PLAN DESIGN FEATURES

The vast majority (91%) of *ClearBridge 100* companies provide an annual incentive opportunity to their executives through a formulaic AIP program. The following section examines the design details of these programs. Of the 9 companies that do not use formulaic AIP programs, 6 pay bonuses on a discretionary basis (consisting mostly of companies in the financial services industry), while 3 do not pay bonuses to their executives.

Performance Measures

Number of Performance Measures

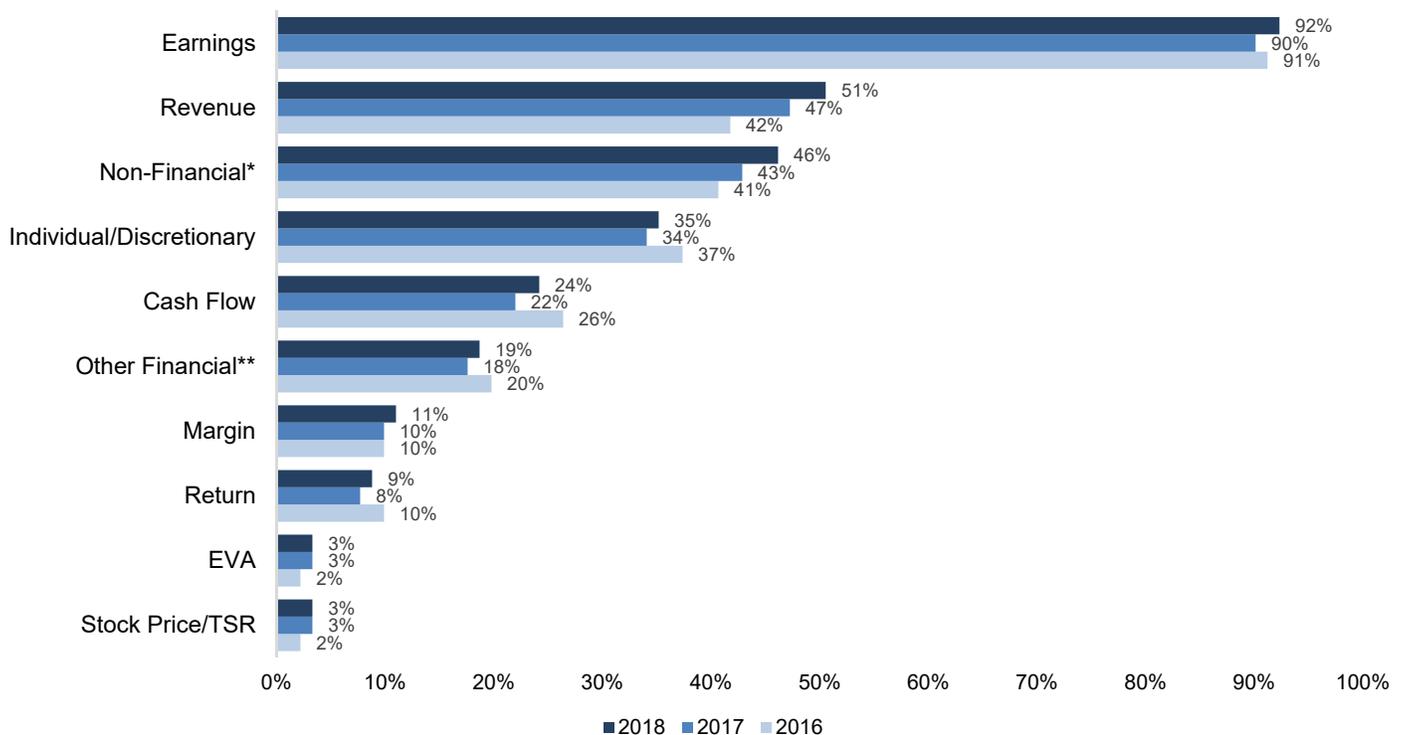
90% of companies use more than one performance measure, as companies have trended towards using more measures in their AIP programs. The most common approach disclosed among the *ClearBridge 100* is the use of three performance measures (41%) or two performance measures (24%) in the annual incentive plan.

Number of AIP Performance Measures: % of Companies (n=91)					
Year	1	2	3	4	5+
2018	10%	24%	41%	16%	9%
2017	10%	29%	41%	15%	5%
2016	11%	27%	38%	15%	8%

Types of Performance Measures

The most prevalent AIP performance measure continues to be earnings, with 92% of companies using an earnings-based measure in 2018 (with EPS as the most common earnings metric). The next most common measure is revenue (51%), growing significantly in prevalence over the last three years, as companies have placed additional emphasis on incentivizing top-line growth. Of companies that use non-financial measures (46%), the most common measures are classified as strategic initiatives, followed by regulatory/safety measures. In addition, 13% of companies also incorporate a measure as a modifier, most commonly tied to non-financial measures.

AIP Performance Measures: % of Companies (n=91)



*Non-Financial Measures include: Strategic Initiatives, Safety, Customer Satisfaction, and other non-financial measures

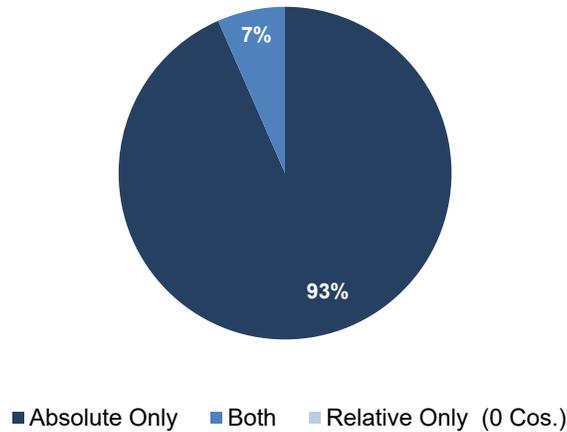
**Other Financial Measures include: Working Capital, Capital Expenditures, and other financial measures



Absolute vs. Relative Performance Measures

The vast majority of companies measure AIP performance on a purely absolute basis, with 93% of companies using this approach in 2018. Very few companies use both an absolute and relative measure (7%), and no companies measure AIP performance on a purely relative basis.

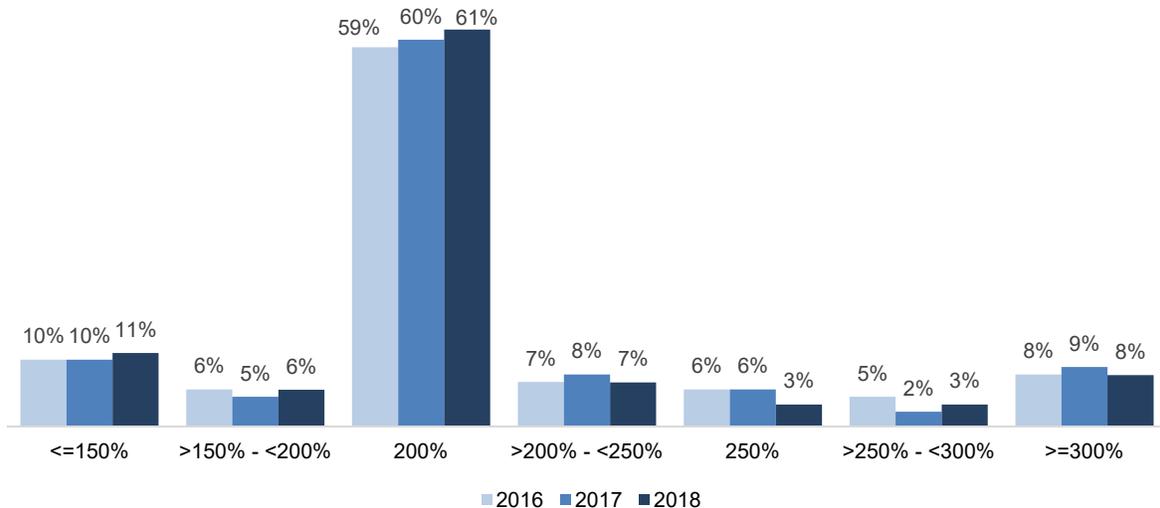
Absolute vs. Relative AIP Measures: % of Companies (n=91)



Payout Leverage

A majority of companies (61%) set the maximum AIP opportunity at 200% of target in 2018, and the market continues to trend towards that payout opportunity. In addition, companies are shifting away from AIP payouts above 200% as the broad market continues to coalesce around 200% maximum payouts.

Maximum AIP Payout as % of Target Payout: % of Companies with Max (n=88)





LONG-TERM INCENTIVE PLAN DESIGN FEATURES





LONG-TERM INCENTIVE PLAN DESIGN FEATURES

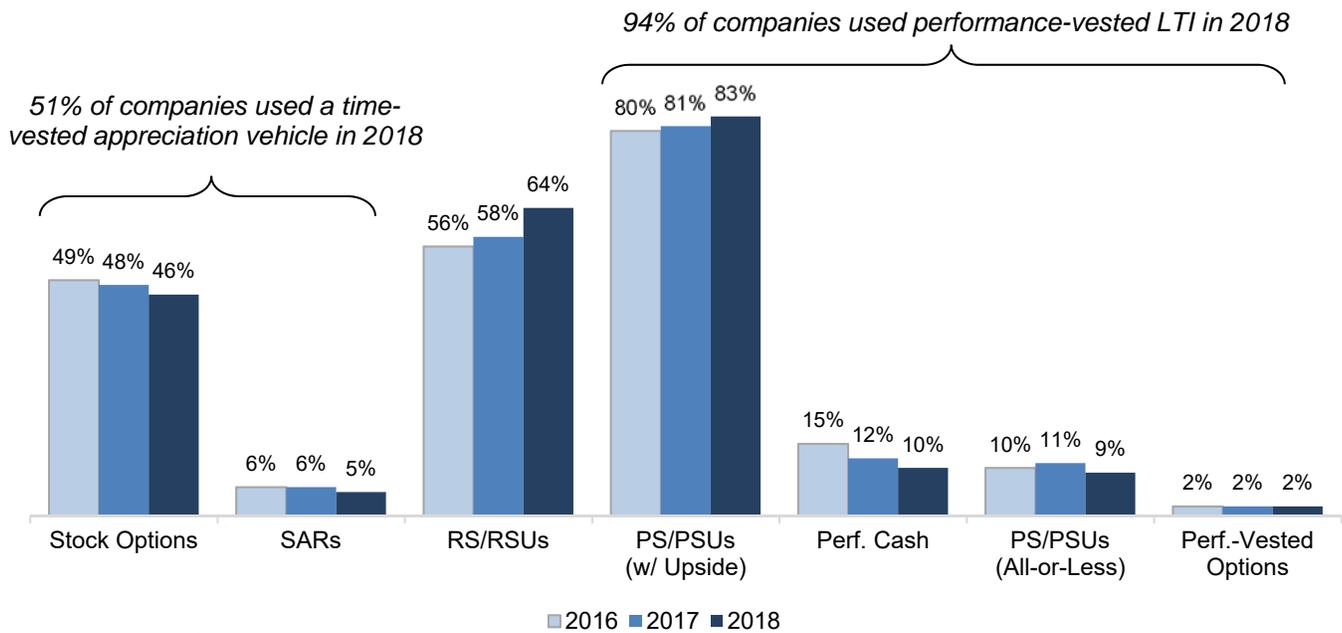
Long-term incentives are granted by all *ClearBridge 100* companies (100%). The following section examines the design features of these LTI plans.

Vehicles and Mix

Prevalence of Vehicles

As part of a continued trend toward performance-vested LTI, 94% of *ClearBridge 100* companies use at least one performance-vested LTI vehicle. The use of time-vested restricted stock/units also increased in 2018. The use of time-vested stock options/SARs decreased from 55% to 51%, continuing the trend in the broad market away from appreciation vehicles; as additional context, the prevalence of stock options/SARs was 59% in 2013.

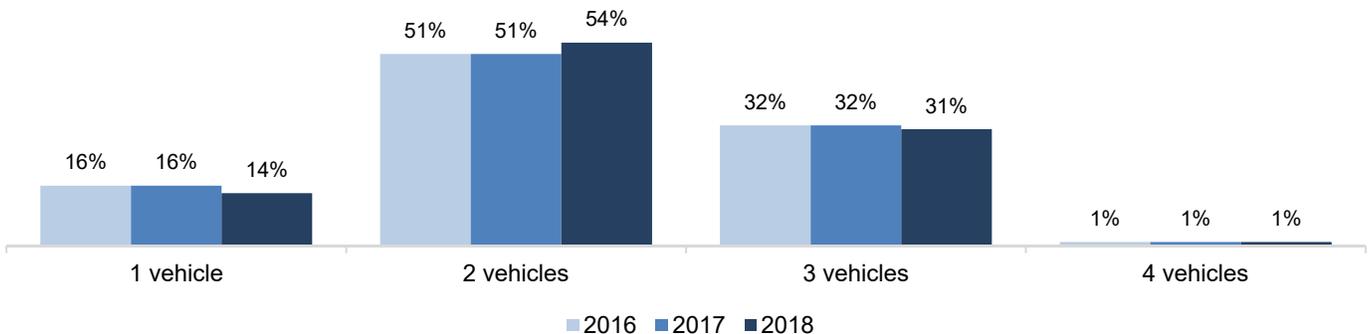
LTI Vehicles: % of Companies (n=100)



Number of Vehicles

In recent years, companies have trended towards using multiple LTI vehicles; a vast majority of *ClearBridge 100* companies (86%) use more than one LTI vehicle in their LTI plans. The use of two LTI vehicles is the most common approach (54%), followed by the use of three LTI vehicles with 31% prevalence. Of companies granting two vehicles, the most prevalent combination is performance shares/units and time-vested restricted stock/units.

**Number of LTI Vehicles:
% of Companies (n=100)**



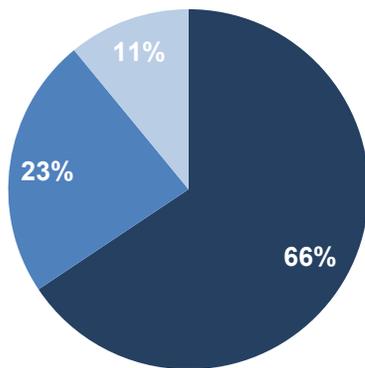


Time-Vested LTI Award Features

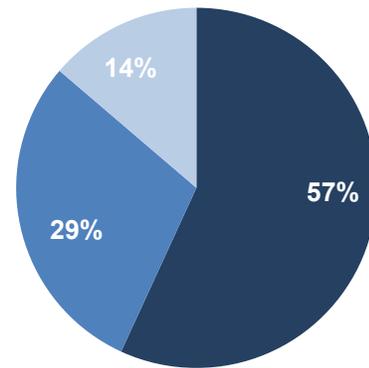
Vesting Period

A three-year vesting period for time-vested LTI is the most prevalent vesting period among *ClearBridge 100* companies. A majority of companies (66%) use three-year vesting periods for time-vested restricted stock/units. Practices among companies granting time-vested stock options/SARs are slightly more mixed. While most companies granting time-vested stock options/SARs use three-year vesting (57%), four-year vesting is also prevalent (29%).

Restricted Stock/Units Vesting Period:
% of Companies (n=64)



Stock Option/SAR Vesting Period:
% of Companies (n=51)

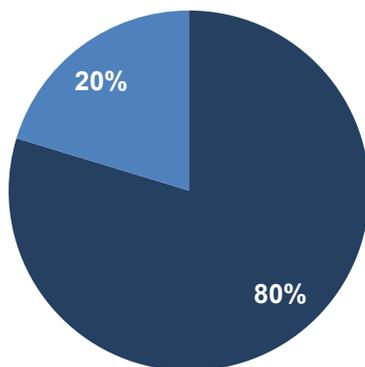


■ 3 years ■ 4 years ■ 5+ years

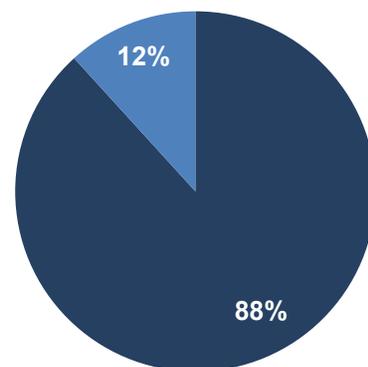
Vesting Type

Ratable vesting, when awards vest in tranches over time (e.g., annually), is the more prevalent vesting approach (vs. cliff vesting, when awards vest in full at the end of the vesting period). Among companies granting time-vested restricted stock/units, ratable vesting is used by 80% of companies; among companies granting time-vested stock options/SARs, an even higher percentage of companies use ratable vesting (88%).

Restricted Stock/Units Vesting Type:
% of Companies (n=64)



Stock Options/SARs Vesting Type:
% of Companies (n=51)



■ Ratable ■ Cliff

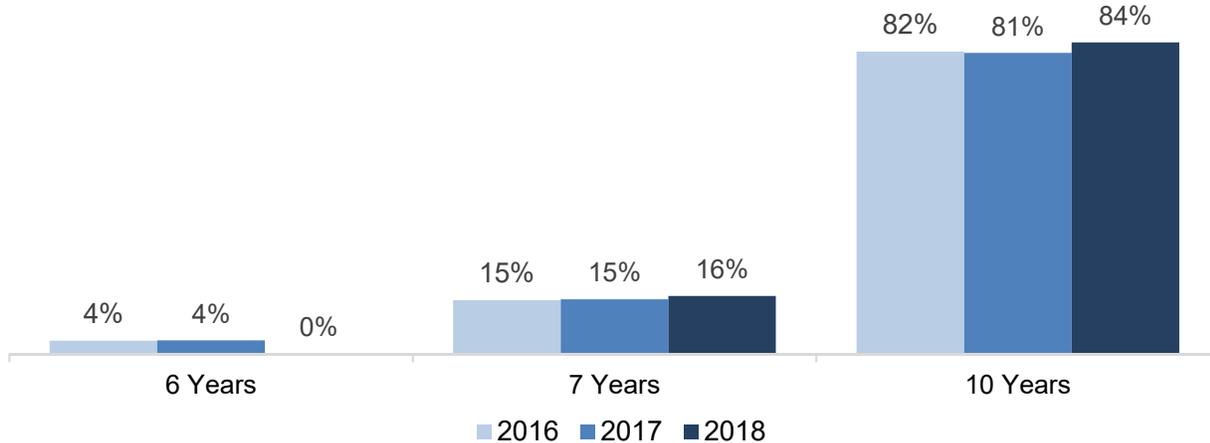




Stock Options/SARs Term

The market standard term for time-vested stock options/SARs is ten years (84%), distantly followed by seven years (16%). In 2018, no companies in the *ClearBridge 100* granted time-vested stock options/SARs with terms other than seven or ten years, which is a departure from 2016 and 2017 when 4% of companies had time-vested stock options/SARs terms of 6 years.

**Time-Vested Stock Options/SARs Terms:
% of Companies (n=51)**



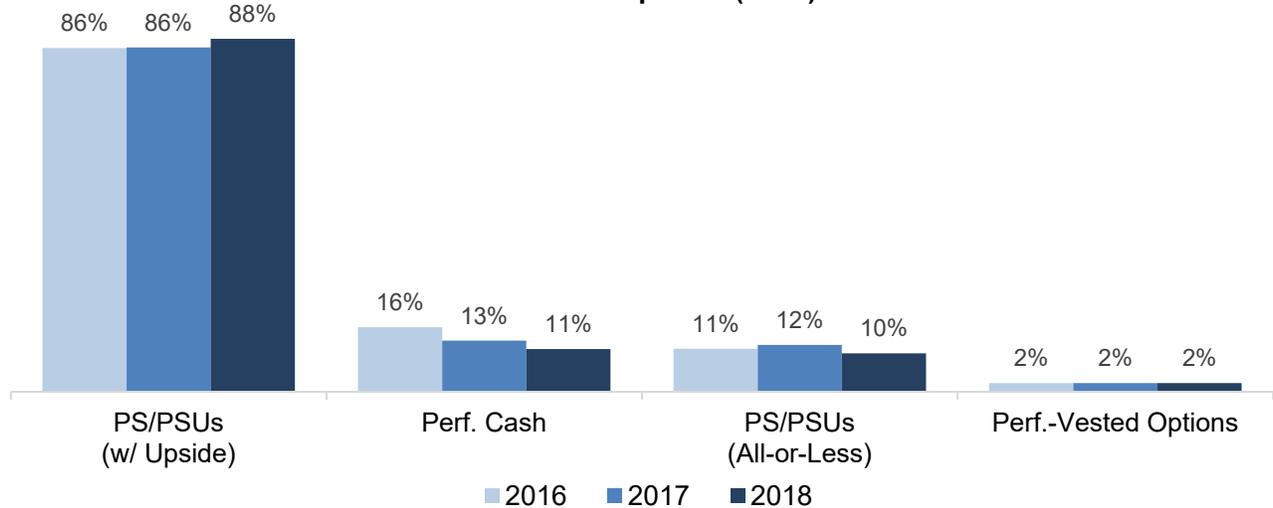


Performance-Vested LTI Award Features

Vehicles

Among *ClearBridge 100* companies that use performance-vested LTI, 88% use performance shares/units (with upside and downside). A minority of companies grant performance cash (11%), all-or-less PS/PSUs (10%), or performance-vested stock options (2%).

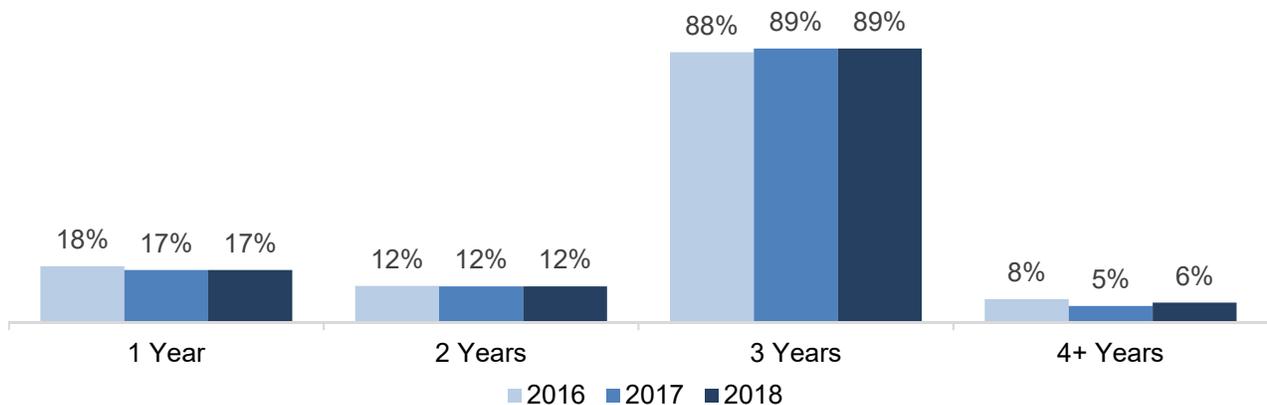
**Performance-Vested LTI Vehicles:
% of Companies (n=94)**



Performance Periods

Among the companies using performance-vested LTI, a majority of *ClearBridge 100* companies use a 3-year performance period (89%) for at least one of their performance-vested LTI vehicles. The majority of companies granting awards with performance periods of less than three years extend vesting for one or more years after the end of the performance period. A shift towards 3-year performance periods has been a continued market trend (as additional context, prevalence of a 3-year performance period was 80% in 2013).

**Length of Performance Period for LTI:
% of Companies (n=94)**





Number of Performance Measures

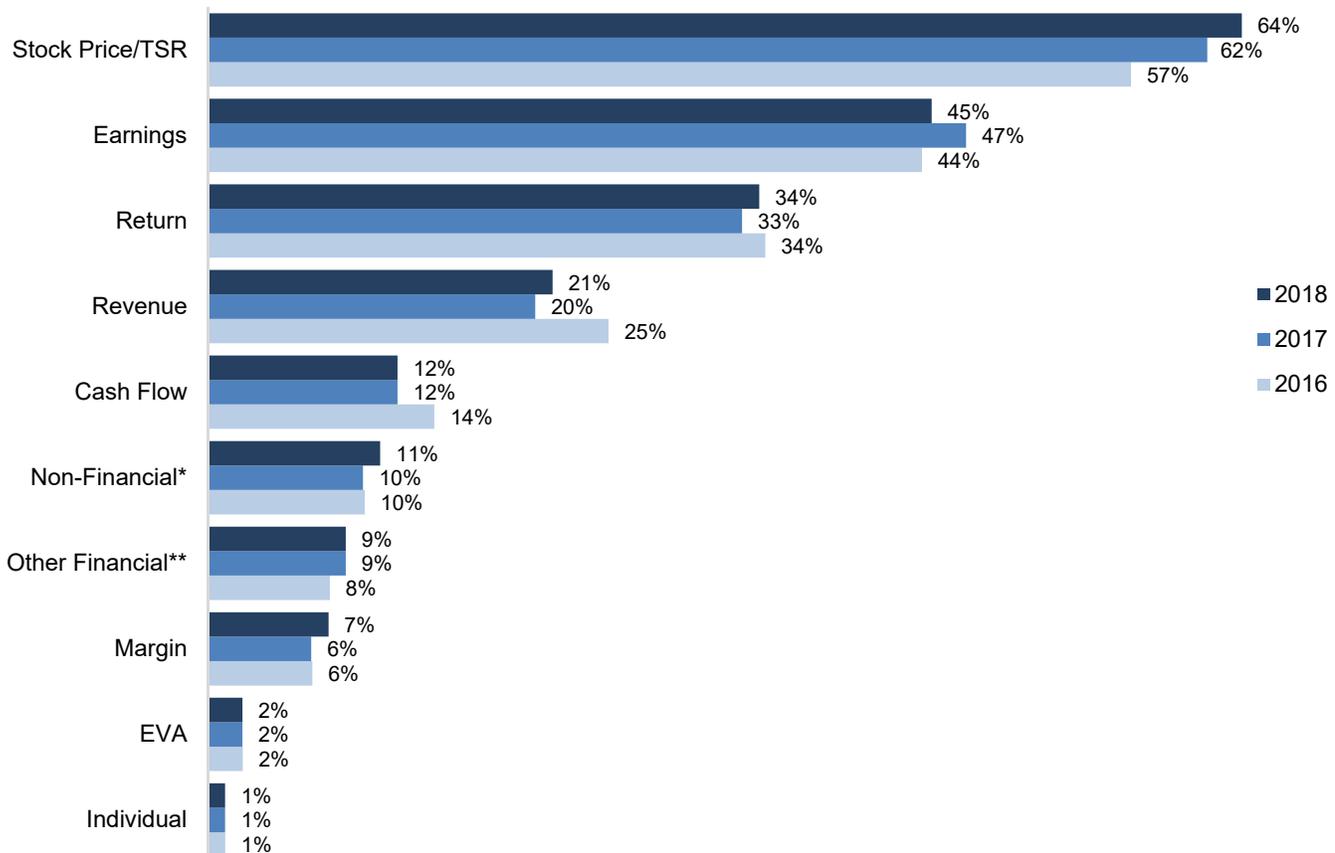
Consistent with AIP programs, companies are trending towards using multiple performance measures. The use of two measures is the most popular approach (38%) and has grown in prevalence since 2016. The use of one measure is the second most prevalent practice at 32%, followed by the use of three measures at 23%.

Number of LTI Performance Measures: % of Companies (n=94)					
Year	1	2	3	4	5+
2018	32%	38%	23%	5%	1%
2017	38%	32%	22%	6%	1%
2016	40%	31%	19%	9%	1%

Types of Performance Measures

Stock price/TSR remains the most prevalent measure with 64% of companies using this measure; stock price/TSR has increased in prevalence over the long-term with 51% of companies using this measure in 2013. 50% of companies use stock price/TSR as a weighted measure (occasionally in conjunction with a separate stock price/TSR modifier), while 14% use the measure as a modifier only. Earnings continues to be the second most prevalent measure (45%), with return measures (e.g., return on assets) following as the third most prevalent (34%).

LTI Performance Measures:
% of Companies (n=94)



*Non-Financial Measures include: Strategic Initiatives, Market Share, and other non-financial measures

**Other Financial Measures include: Book Value, Cash Balance, and other financial measures

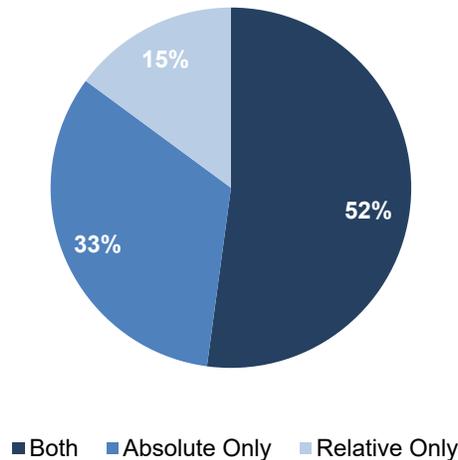




Absolute vs. Relative Performance Measures

The majority of companies measure LTI performance using a mix of absolute and relative performance measures (52%). The second most common approach is to measure performance on an absolute basis only (33%), while 15% of companies measure performance on a purely relative basis against an external peer group or index. Among performance measures, stock price/TSR is the most common measure assessed on a relative basis.

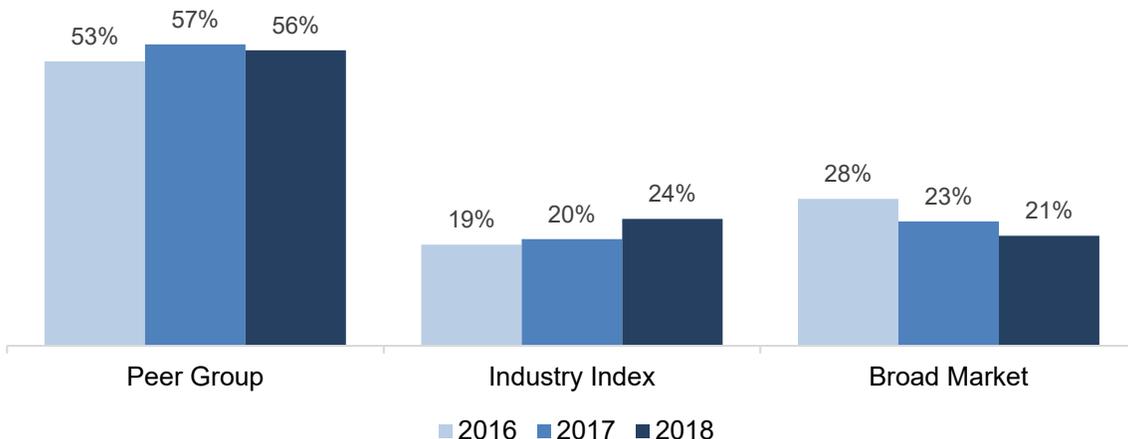
Absolute vs. Relative LTI Measures: % of Companies (n=94)



Relative Measure Benchmarks

Among awards that use a relative measure, the most common benchmark is a self-selected peer group (56%). Companies less commonly use an industry-specific index (24%), or a broad market index (21%) such as the S&P 500®; the use of broad market indices has decreased in each of the last three years.

Relative LTI Performance Benchmarks: % of Companies (n=63)

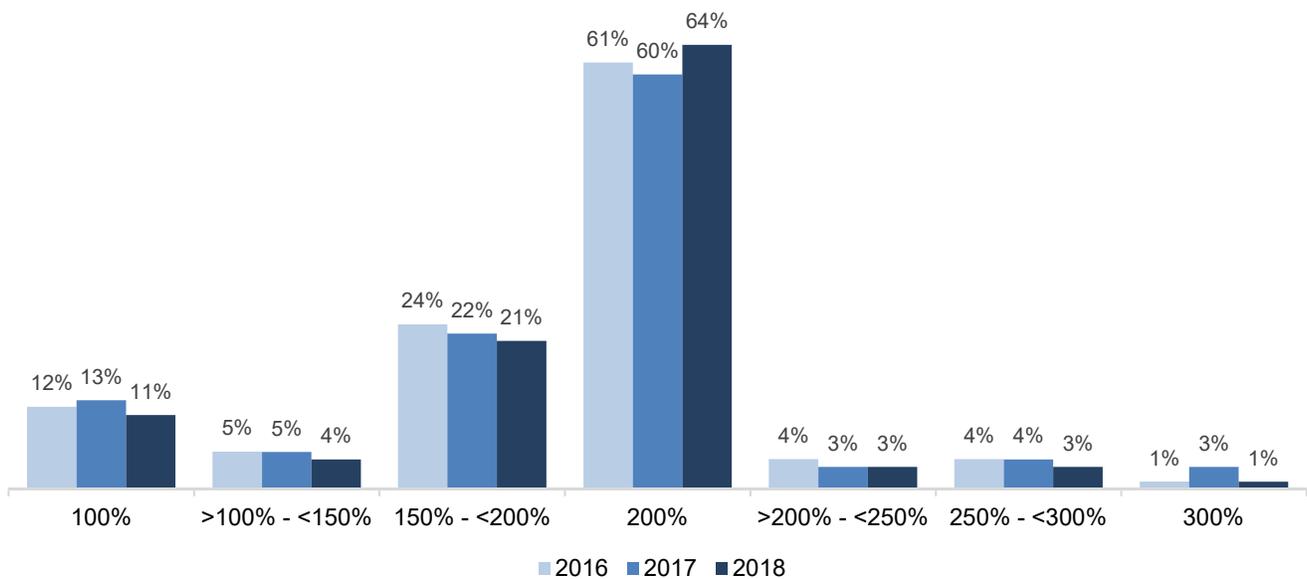




Payout Leverage

Among performance-vested LTI awards, the most prevalent market approach is to set a maximum payout opportunity of 200% of target (64% of companies with performance-vested LTI, which is an increase from 60% in 2017). A minority of companies set maximum payout opportunities below 150% of target or above 200% of target. 11% of companies use awards that do not provide for a payout above the target opportunity (i.e., all-or-less).

**Maximum LTI Payout as % of Target Payout:
% of Companies (n=94)**





Total Shareholder Return Modifiers

As TSR continues to increase in prevalence as a measure in performance-vested LTI awards, there has also been a trend among companies to use TSR as a modifier to performance-vested LTI payouts (as opposed to a weighted measure). Of the companies that grant performance-vested LTI awards, 24% utilize one of the following TSR modifiers:

Relative TSR Modifier: Modifies (up or down) the payout of a performance award by comparing the company's TSR over the respective performance period against a comparator group (e.g., industry index).

Absolute TSR Modifier: Modifies (up or down) the payout of a performance award by comparing the company's TSR over the respective performance period against pre-established TSR goals.

Absolute TSR Cap: Limits the payout of a performance award by establishing a payout cap if certain TSR goals are not achieved (e.g., payout of a performance award is capped at target if the company's TSR is negative over the course of the performance period).

Among the *ClearBridge 100*, a relative TSR modifier is the most prevalent TSR modifier in LTI plans, followed by an absolute TSR cap. The prevalence of TSR modifiers increased in 2018 as companies continue to incorporate stock price measures into their performance LTI designs.

Use of TSR Modifier: % of Companies (n=94)				
Year	Prevalence of Modifier	Type of Modifier		
		Relative	Absolute	Absolute Cap
2018	24%	14%	2%	9%
2017	22%	13%	2%	7%
2016	22%	12%	2%	8%

The magnitude of the TSR modifier varies by company, ranging from $\pm 10\%$ to $\pm 50\%$ of the initial payout calculation, with the most common magnitude equal to $\pm 25\%$. Additionally, a minority of companies (5%) use a modifier in their LTI plans that is tied to a non-TSR measure (e.g., based on earnings or return).





CLEARBRIDGE 100 COMPOSITION



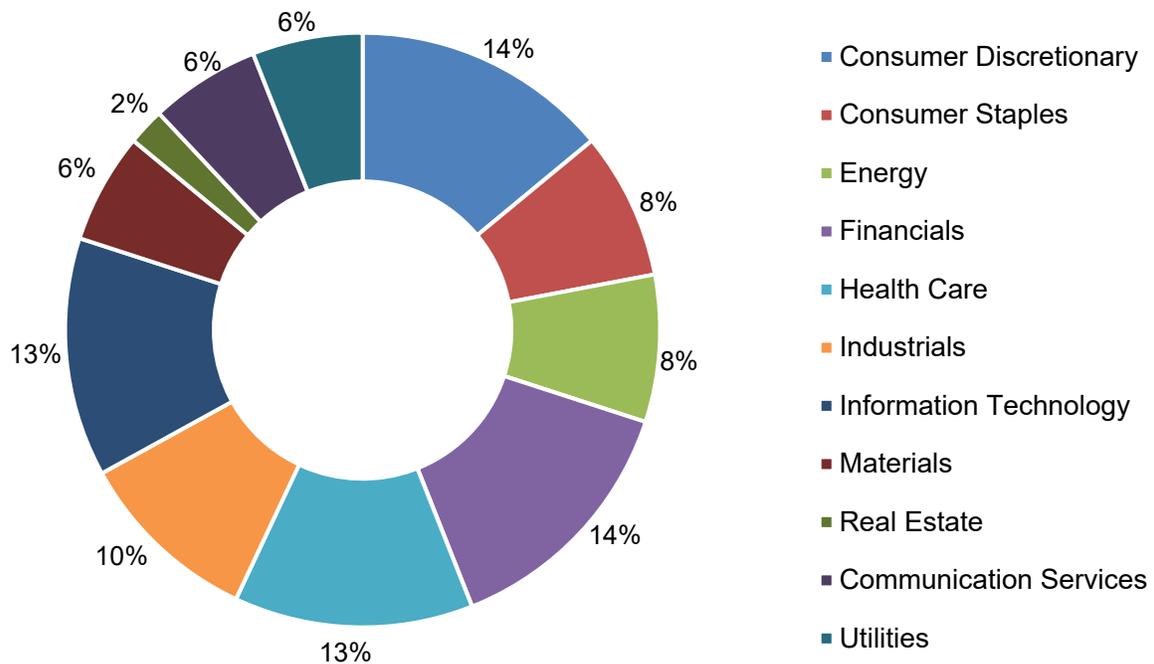
Overview of the *ClearBridge 100*

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.

Features of the *ClearBridge 100*

	FY2018 Revenue (\$ Millions)	Market Value as of 12/31/2018 (\$ Millions)
75th Percentile	\$23,469	\$69,061
Median	\$12,632	\$27,027
25th Percentile	\$7,658	\$11,649

ClearBridge 100 Industry Composition





CLEARBRIDGE 100 COMPOSITION

Company	Industry
Adobe Inc.	Information Technology
Aetna Inc.	Health Care
Akamai Technologies, Inc.	Information Technology
Allergan plc	Health Care
Alliance Data Systems Corporation	Information Technology
Alphabet Inc.	Communication Services
Amazon.com, Inc.	Consumer Discretionary
American Express Company	Financials
American Water Works Company, Inc.	Utilities
Amgen Inc.	Health Care
Anadarko Petroleum Corporation	Energy
Aon plc	Financials
AT&T Inc.	Communication Services
Baker Hughes Incorporated	Energy
Ball Corporation	Materials
BB&T Corporation	Financials
Biogen Inc.	Health Care
BlackRock, Inc.	Financials
BorgWarner Inc.	Consumer Discretionary
Boston Properties, Inc.	Real Estate
Boston Scientific Corporation	Health Care
Bristol-Myers Squibb Company	Health Care
CBRE Group, Inc.	Real Estate
CenturyLink, Inc.	Communication Services
Chubb Limited	Financials
Cincinnati Financial Corporation	Financials
Cognizant Technology Solutions Corporation	Information Technology
Colgate-Palmolive Company	Consumer Staples
Consolidated Edison, Inc.	Utilities
Corning Incorporated	Information Technology
CVS Health Corporation	Health Care
Danaher Corporation	Health Care
Discovery Communications, Inc.	Communication Services
DISH Network Corporation	Communication Services
Dominion Energy, Inc.	Utilities
Dr Pepper Snapple Group, Inc.	Consumer Staples
Eaton Corporation plc	Industrials
eBay Inc.	Consumer Discretionary
Ecolab Inc.	Materials
Equifax Inc.	Industrials
Exelon Corporation	Utilities
Exxon Mobil Corporation	Energy
Gartner, Inc.	Information Technology
General Electric Company	Industrials
Harley-Davidson, Inc.	Consumer Discretionary
Hess Corporation	Energy
Illinois Tool Works Inc.	Industrials
Intel Corporation	Information Technology
International Business Machines Corporation	Information Technology
JPMorgan Chase & Co.	Financials





CLEARBRIDGE 100 COMPOSITION

Company	Industry
Juniper Networks, Inc.	Information Technology
Kellogg Company	Consumer Staples
L Brands, Inc.	Consumer Discretionary
M&T Bank Corporation	Financials
Masco Corporation	Industrials
Mattel, Inc.	Consumer Discretionary
McDonald's Corporation	Consumer Discretionary
Merck & Co., Inc.	Health Care
Moody's Corporation	Financials
Motorola Solutions, Inc.	Information Technology
Murphy Oil Corporation	Energy
Mylan N.V.	Health Care
Nasdaq, Inc.	Financials
National Oilwell Varco, Inc.	Energy
Newell Brands Inc.	Consumer Discretionary
Newmont Mining Corporation	Materials
NiSource Inc.	Utilities
NVIDIA Corporation	Information Technology
PACCAR Inc	Industrials
Pentair plc	Industrials
Pepsico, Inc.	Consumer Staples
Pfizer Inc.	Health Care
Pioneer Natural Resources Company	Energy
PPL Corporation	Utilities
Quanta Services, Inc.	Industrials
Quest Diagnostics Incorporated	Health Care
Range Resources Corporation	Energy
Target Corporation	Consumer Discretionary
Texas Instruments Incorporated	Information Technology
The Bank of New York Mellon Corporation	Financials
The Charles Schwab Corporation	Financials
The Coca-Cola Company	Consumer Staples
The Dow Chemical Company	Materials
The Goldman Sachs Group, Inc.	Financials
The Hershey Company	Consumer Staples
The Kraft Heinz Company	Consumer Staples
The Priceline Group Inc.	Consumer Discretionary
The Sherwin-Williams Company	Materials
Tiffany & Co.	Consumer Discretionary
Time Warner Inc.	Communication Services
United Parcel Service, Inc.	Industrials
United Technologies Corporation	Industrials
V.F. Corporation	Consumer Discretionary
Varian Medical Systems, Inc.	Health Care
Wal-Mart Stores, Inc.	Consumer Staples
WestRock Company	Materials
Wyndham Worldwide Corporation	Consumer Discretionary
Xerox Corporation	Information Technology
Yum! Brands, Inc.	Consumer Discretionary
Zions Bancorporation	Financials





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

Our Partners and team of consultants work together to provide sound advice based on each company's unique situation. Companies choose ClearBridge for:

- Our tailored approach and emphasis on advice, not just data
- Our focus on long-term sustainable shareholder value creation
- Our rigorous approach to pay-for-performance
- Our highly-proactive and exceedingly responsive approach

Our Services

As advisors to Compensation Committees and management, we provide an array of services to meet the individual needs of our clients. A sample of our consulting services includes:

<p>Total Compensation Review and Design</p> <p>Annual Incentive Design</p> <p>Long-term Incentive/Equity Compensation Design</p> <p>Board of Directors Compensation</p> <p>Pay-for-Performance Assessment</p> <p>Say-on-Pay Preparation and Shareholder Engagement</p> <p>Transactional Compensation Design (e.g., IPOs, M&A)</p>
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Contact Us

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

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