Center On Executive Compensation

February 7, 2012

[redacted]

RE: Proxy Voting Responsibilities and Pay for Performance in the 2012 Proxy Season

Dear [redacted]:

As we approach the second year of mandated say on pay, I am writing on behalf of the Center On Executive Compensation to request a meeting with your proxy voting staff to discuss your firm's process for evaluating say on pay and explain our concerns with the new ISS pay for performance analysis and its impact on say on pay voting more broadly.

The Center On Executive Compensation is a research and advocacy organization that seeks to promote a principles-based approach to executive compensation policy from the perspective of the senior human resource officers of leading companies. The Center is a division of HR Policy Association, which represents the chief human resource officers of over 330 large companies, and the Center's more than 90 subscribing companies represent a broad-cross section of industries. Because we believe that a continuing dialog between issuers and institutional investors would help further clarify disclosures and understanding regarding the linkage between pay and performance, we are requesting a meeting with your proxy voting staff.

Heading into 2012, a positive development is that the focus of issuers, investors and proxy advisory firms on pay for performance has intensified. Many institutional investors have indicated they are developing their approaches for analyzing pay for performance, and ISS has stated that it is changing its evaluation of pay for performance in 2012 to improve accuracy of its initial screening. As part of this process, ISS will redefine and expand the peer groups it uses for pay for performance, a change that has some potential to improve pay for performance evaluations. However, Center has several concerns with the three new tests used to evaluate pay company pay for performance for the following reasons:

- Inconsistent Time Frames Are Used in Determining Pay for Performance. The tests designed to measure whether company pay and performance are aligned with peers, the relative alignment tests, use inconsistent time frames for measuring pay and performance, which do not reflect board decision making and increases the likelihood of misalignment.
- Continued Emphasis on Short-Term Performance. One of the criticisms of ISS's pay for performance evaluation in 2011 was that it focused on one year pay versus one- and three-year (and sometimes five-year) performance. Yet, under the 2012 approach, both the relative degree of alignment test and the absolute alignment test place a significant emphasis on short-term pay for performance, rather than the longer term.

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- Outdated Data Is Used for Early Filers. A hallmark of accurate pay for performance comparisons is ensuring that the data is as consistent as possible. For many early proxy filers, the peer group pay data used will date back to the 2011 proxy, which is 2010 pay data.

In our view, a key flaw in the pay for performance evaluation used by proxy advisory firms is the failure to compare pay actually received to performance. ISS in particular looks at a mix of actual pay (salary and bonus) and the accounting expense of equity-based pay, that may or may not be realized depending on future performance, and compare this mix of pay measures with historical company performance as measured by the sole measure of total shareholder return. This results in a comparison of potential pay to past performance and could lead to inaccurate voting results.

A positive by-product of the first year of say on pay was that many of the largest institutional investors have developed an independent approach to analyzing pay for performance and say on pay for 2012 that goes beyond the analyses of the proxy advisory firms. We believe this is a positive trend because it reaffirms the fiduciary duty of institutional investors to vote proxies in the best interest of their clients.

We believe that institutional investors are better served by comparing actual pay with actual performance when attempting to assess the relationship of pay and performance. For this reason, as part of your firm's assessment of say on pay, the Center encourages your firm to compare realized or realizable pay to performance, given that say on pay is a referendum on the previous year's pay. We understand that most institutional investors also look at the grant date value of pay to evaluate the board's pay decisions relative to projected performance in evaluating the pay decisions the board has made going forward. However, we believe this view of incentives for future performance would be more meaningful if also viewed in the context of the historical relationship of actual pay realized and the corresponding performance upon which payouts were based. We would appreciate the opportunity to discuss our Subscribers' thoughts on this issue with your proxy voting team.

With respect to the assessment of pay for performance, the Center remains concerned about the undue and unchecked influence of proxy advisory firms through their voting analyses and recommendations. We also continue to be concerned about conflicts of interest within proxy advisory firms. Over the past year, ISS has expanded its offerings to include an executive compensation database service that further blurs the lines between its voting analysis and consulting businesses. SEC Chairman Mary Schapiro indicated in a speech in December that the SEC will publish proposed rules later this year addressing the fiduciary duties of proxy advisory firms that are registered investment advisors and focusing on conflicts of interest and inaccuracies.

Thank you for your consideration of this important issue and your assistance in continuing the dialog on pay for performance and proxy advisory firm accountability. Again, we would appreciate the chance to discuss this issue further with the proxy voting team. The Center's contact for this issue is Tim Bartl, Senior Vice President and General Counsel, and he may be reached at tbartl@execcomp.org.

Sincerely yours,

Charles G. Tharp
Chief Executive Officer