The ClearBridge 100 Report

For Mid-Cap Companies

Executive Compensation Policies

A Decade in Review

ClearBridge Compensation Group

December 2020

Table of Contents

01 Executive Summary

03 Analysis Scope & Methodology

05 Detailed Findings

05 Clawback Policies
08 Stock Ownership Guidelines & Holding Requirements
12 Anti-Hedging & Anti-Pledging Policies
14 Peer Group Approach
18 Perquisites
20 CEO Pay Ratio

22 Additional Information

22 *Mid-Cap ClearBridge 100* Composition
24 About ClearBridge

Executive Summary

With the close of the decade, we at ClearBridge believe there is no better time to take a broad review of the major shifts and trends in executive compensation policies that have been implemented over the past ten years. In 2010, we lived in a time where the economy was slowly recovering from the Great Recession two years prior and the Dow was below 10k points. In 2020, the economy has undergone massive swings due to the COVID-19 pandemic, yet the Dow still hit a record-high 30k points. While some things may drastically change over the course of a decade, others remain consistent. As you'll see in this report, this also rings true for executive compensation.

Over the past ten years, there has been an increased focus by shareholders and proxy advisory firms on executive compensation and good corporate governance practices. Given this increased focus, companies have enhanced their governance policies as well as their compensation disclosure.

This *ClearBridge 100* Report presents data and findings on executive compensation policies and trends among 100 S&P 400® companies, or the "*Mid-Cap ClearBridge 100.*"

Key Findings

Clawback Policies

- Clawbacks are a majority practice, with 83% of companies disclosing a clawback policy in 2020
- The most common events that trigger a clawback are a financial restatement with an executive at fault (89%) and fraud or willful misconduct (70%)
- Most commonly, clawbacks cover performance-based compensation such as cash bonuses (90%) and performance shares/units (89%)
- The most common time period for which compensation is covered by a clawback policy is 3 years in 2020 (74%), which reflects a shift from 2010, where it was equally common to cover either 1 year or 3 years (40% each)

Stock Ownership Guidelines & Holding Requirements

- 91% of companies have stock ownership guidelines in 2020, most often with 5 years to meet the guideline (87%)
- 93% of companies express the guideline as a multiple of salary, typically 5x salary for CEOs (44%)
- CEO stock ownership guidelines have increased over time; in 2020, 37% of companies require a multiple of 6x salary vs. only 7% in 2010
- 54% of companies in 2020 have post-vesting holding requirements for executives (typically requiring a hold until ownership guidelines are met), up from 15% in 2010

Anti-Hedging & Anti-Pledging Policies

- 95% of companies disclose an anti-hedging policy in 2020 (up from 9% in 2010), recognizing the SEC now requires companies to disclose any hedging policy
- 74% of companies disclose an anti-pledging policy in 2020 (up from 7% in 2010)
- Directors and executives are most typically covered within both anti-hedging and anti-pledging policies (> 85% each)

Executive Summary

Peer Group Approach

- While 87% of companies use one compensation peer group, 5% of companies use a secondary peer group, typically to expand beyond their size/industry and get a better sense of broad market practice
- Primary peer groups are typically 10-20 companies (82%) and have increased in size since 2010, likely to decrease volatility and mitigate the potential impact one company can have on the data as an outlier
- Common criteria considered when developing a peer group include revenue and industry
- In 2020, 41% of companies disclose a target compensation positioning philosophy, consistent with 2010
- There has been a significant drop in the number of companies disclosing compensation philosophies with target compensation positioning above the 50th percentile, from 26% of companies in 2010 to 6% in 2020

Perquisites

- For all NEOs, perquisites have declined in prevalence over the last decade; in 2020, 69% of companies provide at least one perquisite to at least one executive (down from 76% in 2010)
- In 2020, the two most common perquisites for CEOs are automotive use and professional services; in 2010, the two most common were automotive use and aircraft use
- While the prevalence of an aircraft perquisite among CEOs decreased between 2010 (22%) and 2020 (11%), the median value of the perquisite increased by 61%

CEO Pay Ratio

- Median CEO pay ratio in 2020 is 95:1, with the Consumer Discretionary sector having the highest ratio (400:1) and the Utilities sector having the lowest ratio (40:1)

Analysis Scope & Methodology

Analysis Scope & Methodology

This report presents findings on various executive compensation policies, including compensation clawback policies, stock ownership guidelines and post-vesting holding requirements, anti-hedging and anti-pledging policies, compensation peer group approach, executive perquisites, and CEO pay ratio as disclosed in 2010 and 2020 (or most recent) proxy statements for each of the *Mid-Cap ClearBridge 100* companies. The results have been aggregated in this report to provide a broad-market view of practices and trends.

Design features in this report are either expressed as a percentage of *Mid-Cap 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.

Definitions

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

- ***Clawback Policies*** allow companies to recoup compensation in connection with certain events that may cause financial and/or reputational harm to the company
- ***Stock Ownership Guidelines*** are requirements for executives to own a specific number or value of company shares
- ***Holding Requirements*** are requirements for executives to retain a certain amount or percentage of vested shares
- ***Anti-Hedging Policies*** prohibit executives from using equity to hedge against company stock
- ***Anti-Pledging Policies*** disallow executives from using equity as collateral
- ***Peer Group*** is a collection of relevant companies to serve as a market benchmark
- ***Target Compensation Positioning Philosophies*** are guiding principles for where to set executive compensation versus a comparator group (e.g., at 50th percentile)
- ***Perquisites*** are additional benefits that may be provided to executives
- ***CEO Pay Ratio*** is the ratio of a company's CEO compensation to the median employee compensation

Clawback Policies

Stock Ownership Guidelines &
Holding Requirements

Anti-Hedging & Anti-Pledging Policies

Peer Group Approach

Perquisites

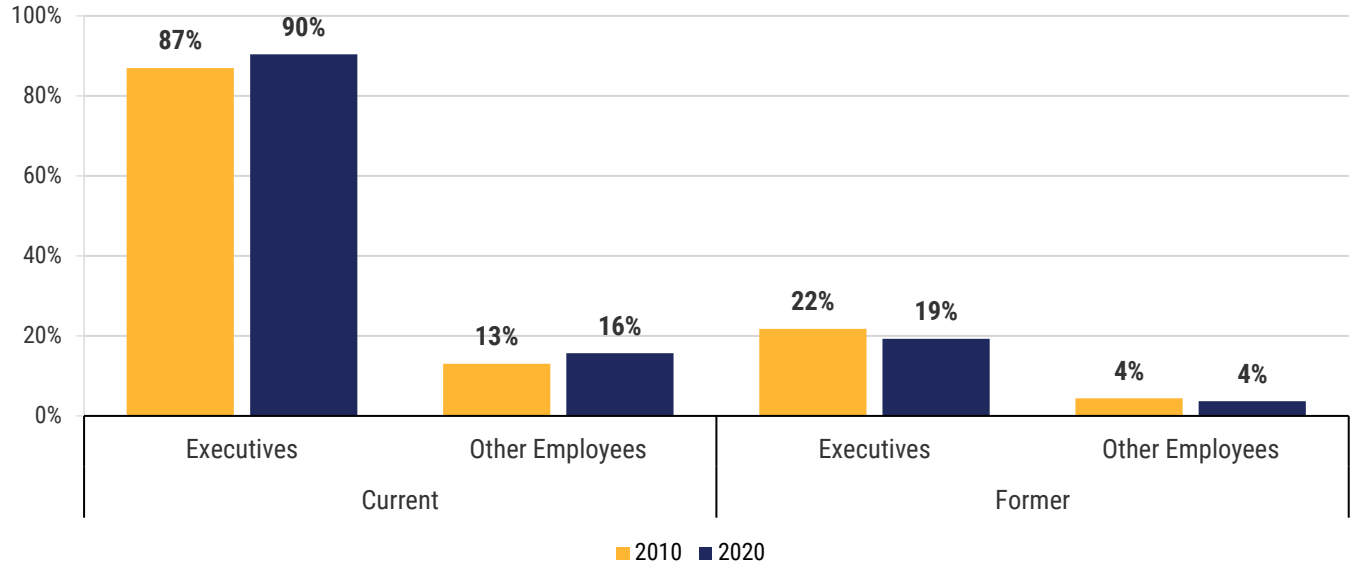
CEO Pay Ratio

Clawback Policies

Compensation clawback policies were uncommon in 2010 **(23% of companies in 2010)** but have since become a majority practice in 2020 **(83% of companies in 2020)**.

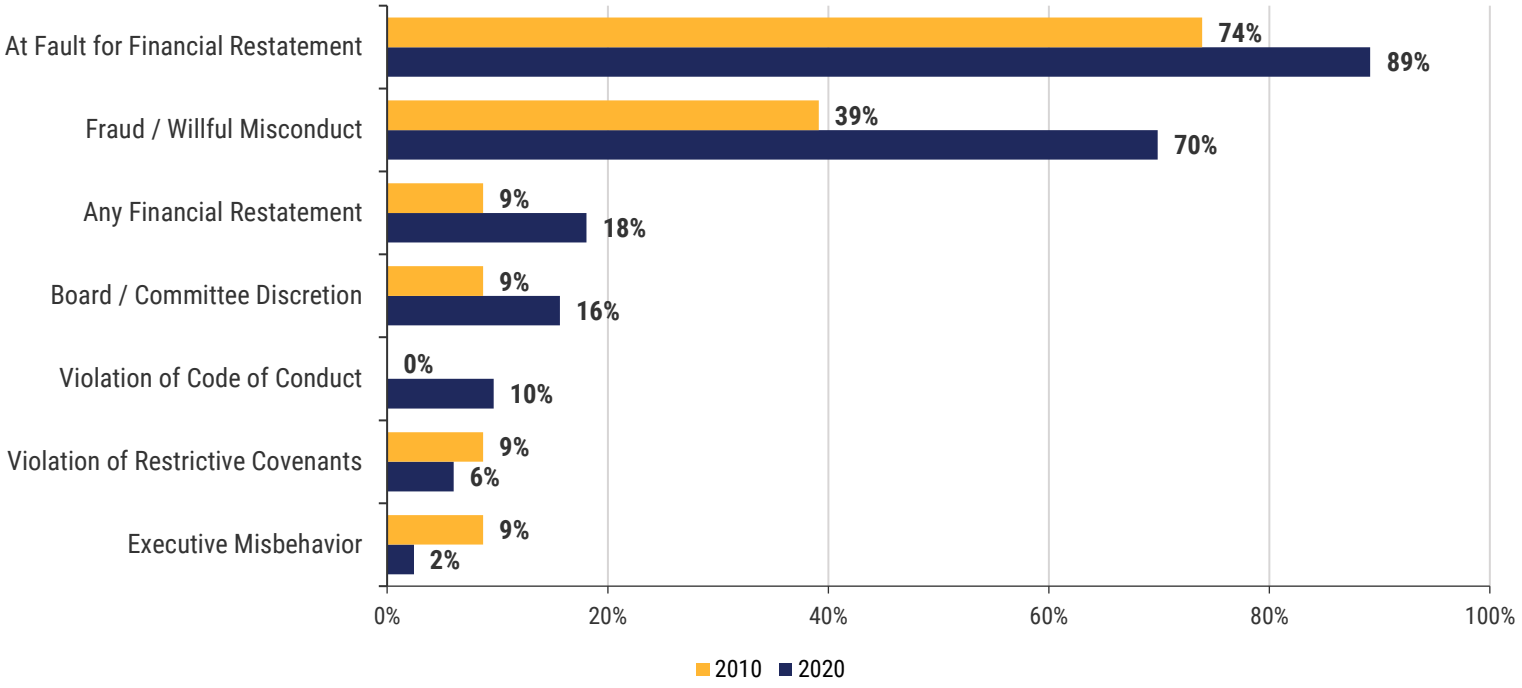
Executives Covered by Clawback Policy

Among companies that disclose a clawback policy in 2020, 90% disclose applying their clawback policy to current executives, as defined by each company (e.g., NEOs, Section 16 Officers), while 16% extend their policy to other current employees (e.g., equity recipients). Companies sometimes also apply clawback policies to former executives and employees.



Clawback Policy Triggers

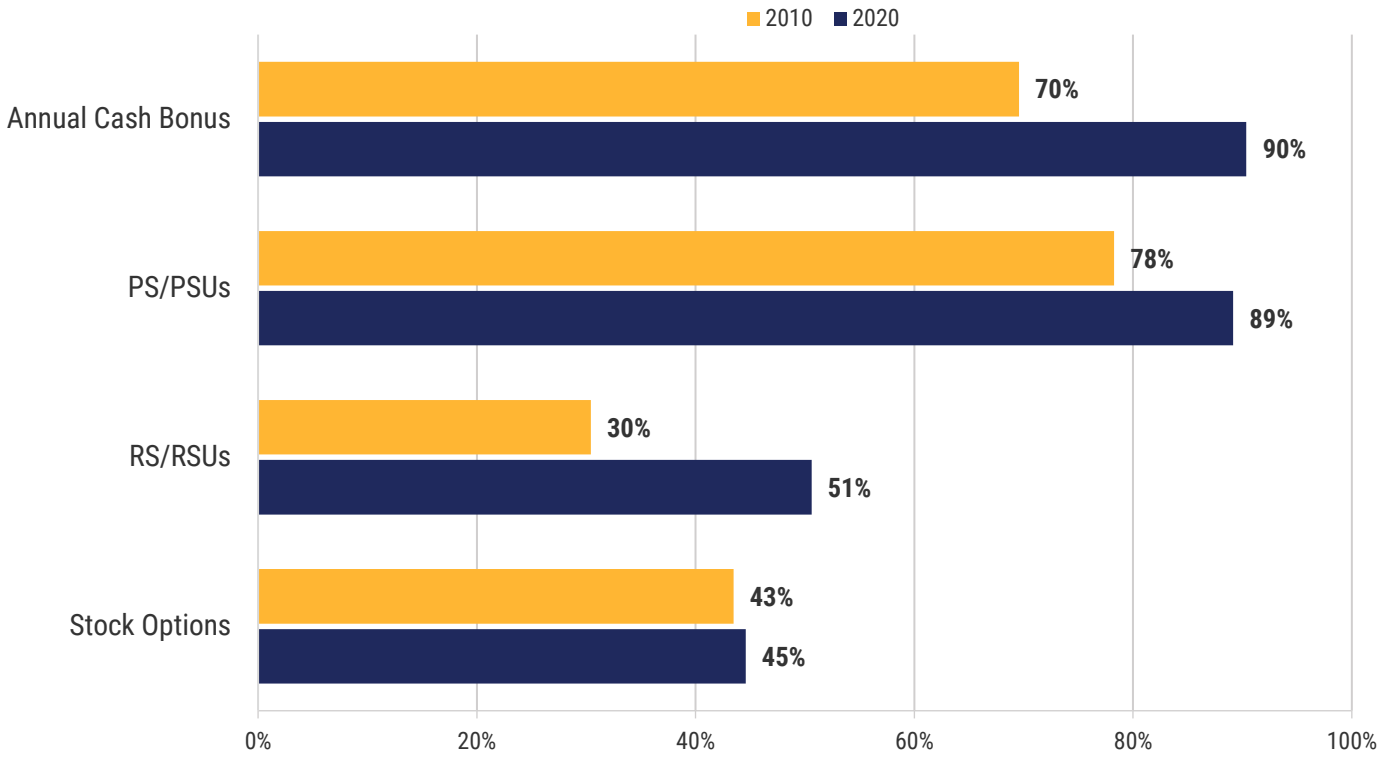
The two most prevalent events that trigger a clawback in both 2010 and 2020 are a financial restatement with an executive at fault (89%) and fraud/willful misconduct (70%). Increases can be seen in other categories, such as a violation of the code of conduct (10% in 2020 vs. 0% in 2010).



Clawback Policies

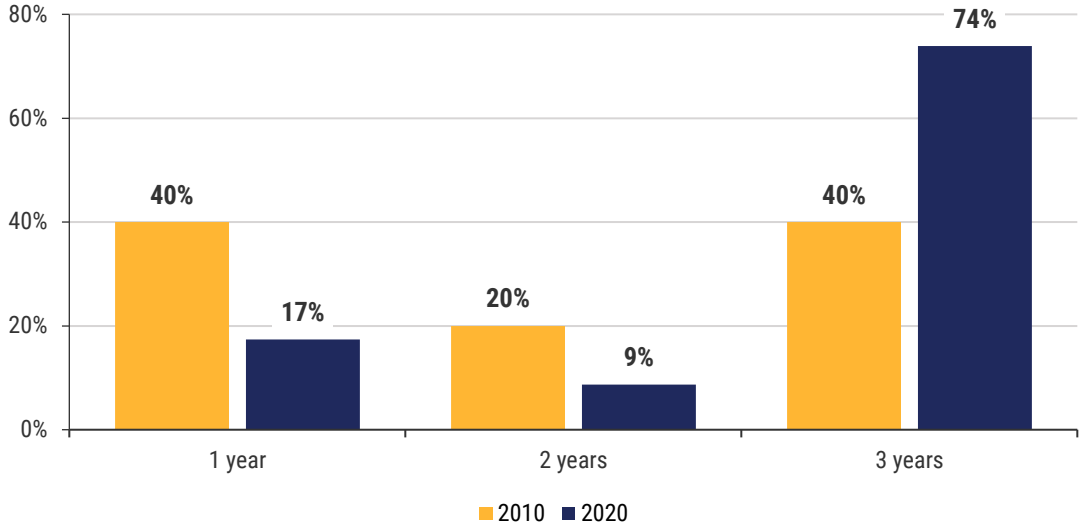
Compensation Subject to Clawback Policy

Performance-based compensation is the most commonly-disclosed compensation vehicle subject to a clawback policy, specifically annual cash bonuses and performance shares/units (90% and 89%, respectively). Unvested shares are more commonly subject to a clawback policy, recognizing the additional challenges in trying to clawback vested shares.



Time Period that Compensation is Subject to Clawback Policy

Of companies that disclose a specific time period in which compensation is subject to a clawback policy, the most prevalent time period is three years (74%). As shown below, practice has shifted to longer time periods over the last decade.



Clawback Policies

Stock Ownership Guidelines & Holding Requirements

Anti-Hedging & Anti-Pledging Policies

Peer Group Approach

Perquisites

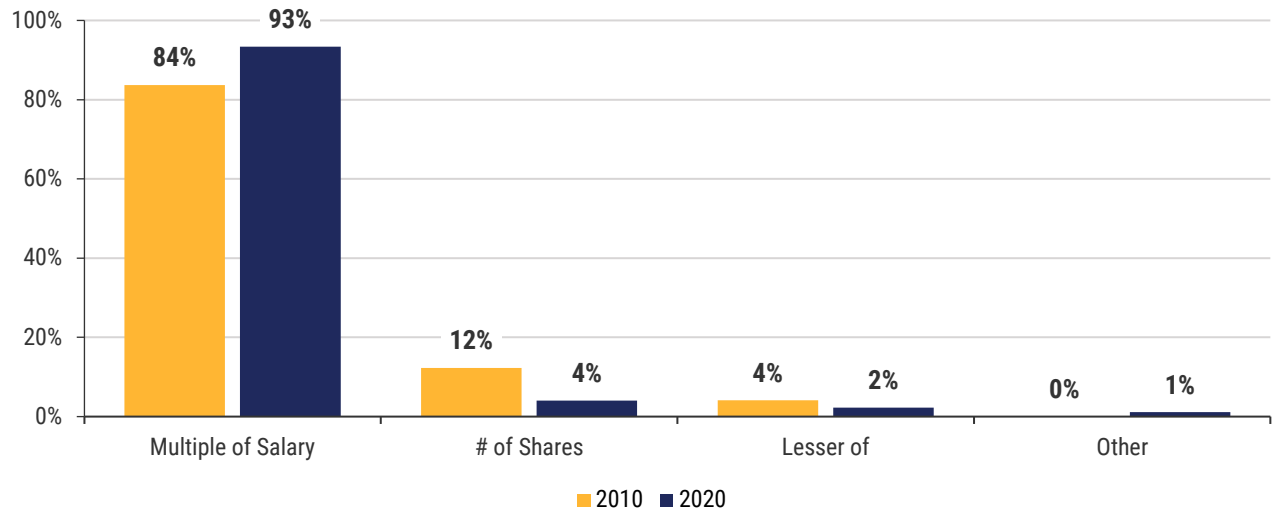
CEO Pay Ratio

Stock Ownership Guidelines & Holding Req.

A vast majority of *Mid-Cap ClearBridge 100* companies (91%) disclose stock ownership guidelines for executives in 2020 (vs. 49% in 2010).

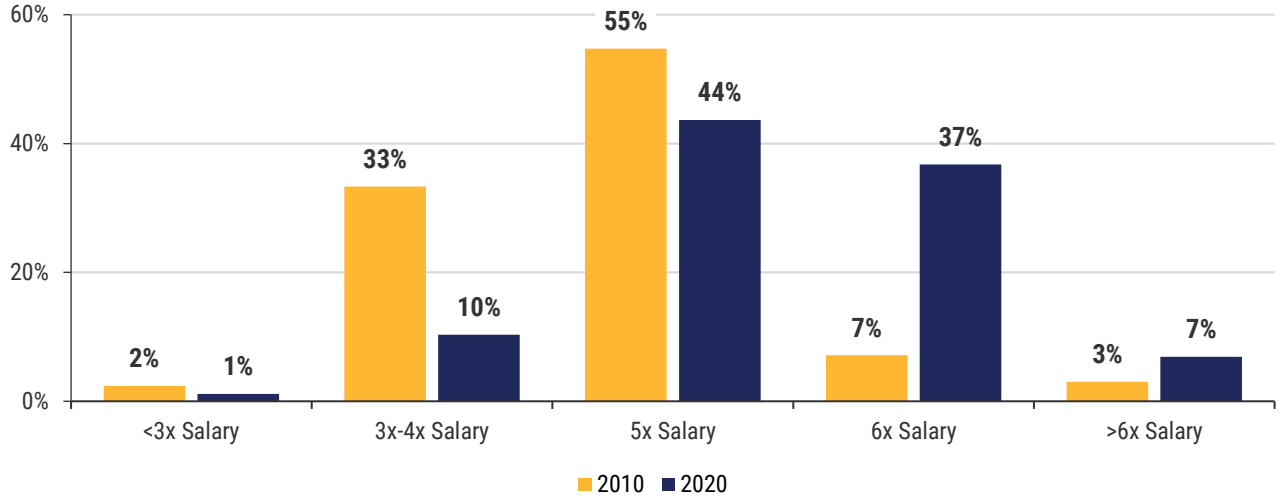
Stock Ownership Guideline Design

Stock ownership guidelines are typically expressed as a multiple of salary (93% in 2020, 84% in 2010). A small minority of companies express the guideline in other ways (e.g., number of shares, specific dollar value, or a "lesser of" approach).



Multiple of Salary for CEO Stock Ownership Guidelines

Of the companies that express the guideline as a multiple of salary, the most typical CEO stock ownership guideline is 5x salary (44% in 2020), though companies are also shifting to 6x salary over time (37% in 2020 vs. 7% in 2010). Over the last decade, the rigor of CEO stock ownership guidelines has increased due to the increased focus on governance and to further align executives with long-term shareholder value creation.

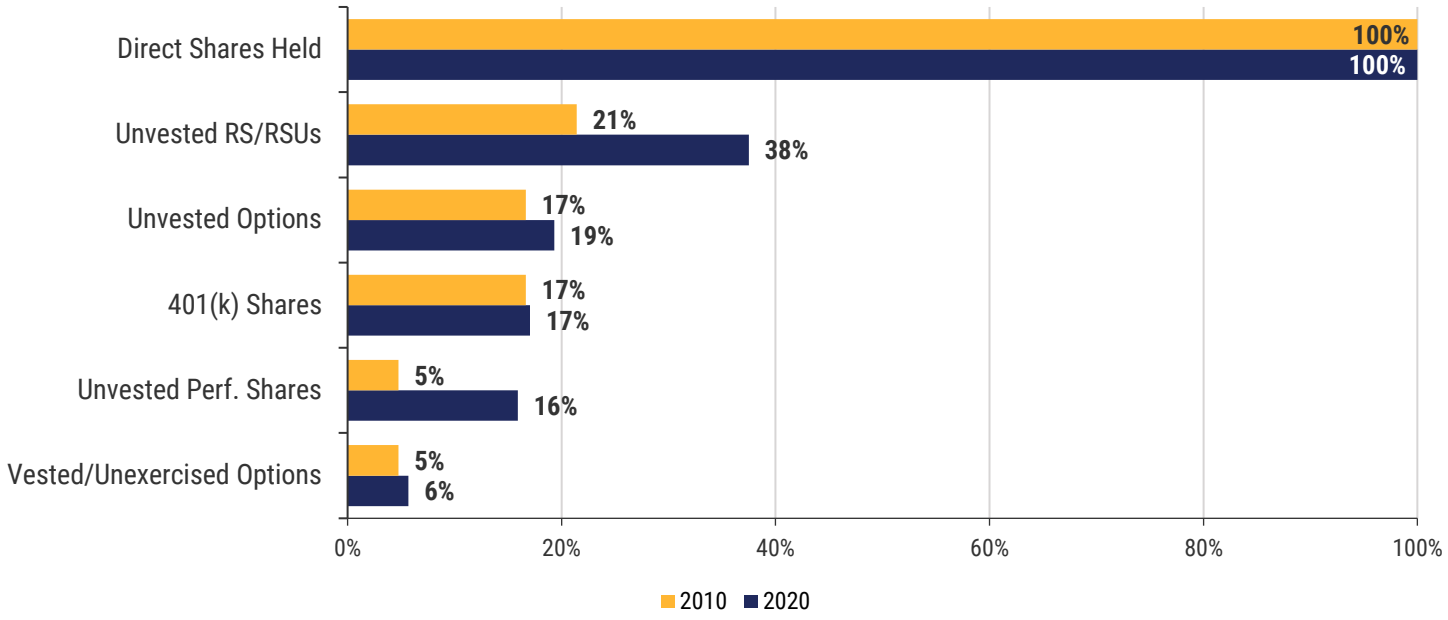


Note: 1 company in 2020 had a stock ownership guideline of 5.5x salary

For other NEOs, guidelines range from 1x to 10x salary, with 3x salary being the most common.

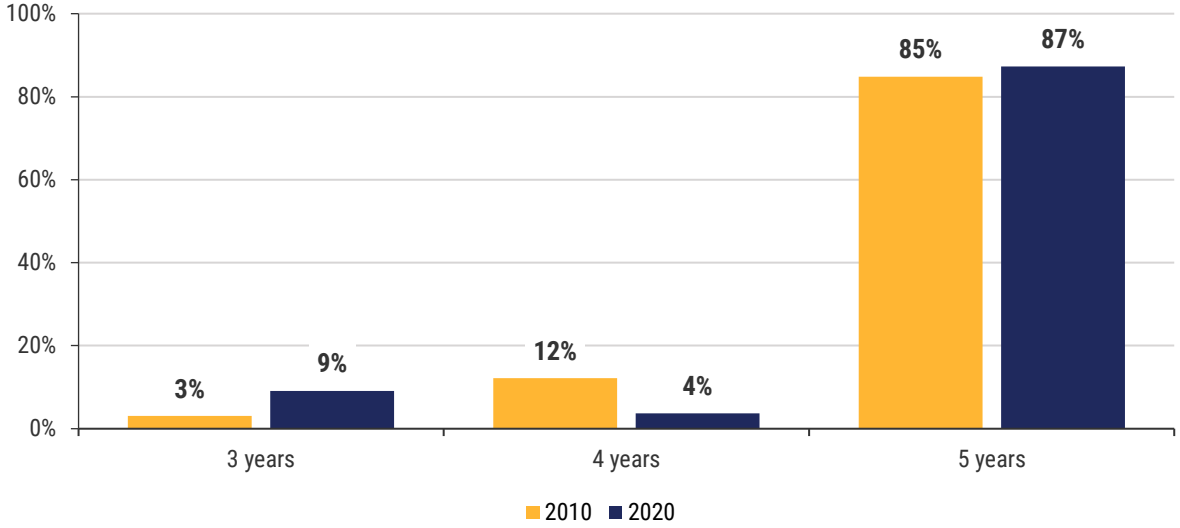
Type of Stock Counting Towards Ownership Guidelines

100% of companies count directly-held shares towards stock ownership guidelines. Per proxy disclosure, unvested restricted stock/units are also somewhat commonly counted (38%), while vehicles such as unvested options (19%) or unvested performance shares (16%) are less typically counted/disclosed.



Required Timeframe to Achieve Stock Ownership Guidelines

A majority of companies (60% in 2020, 67% in 2010) disclose a required timeframe in which to achieve the stock ownership guidelines after being subject to the requirements (e.g., upon eligibility, promotion, hiring). The most prevalent timeframe required to achieve stock ownership guidelines is 5 years.

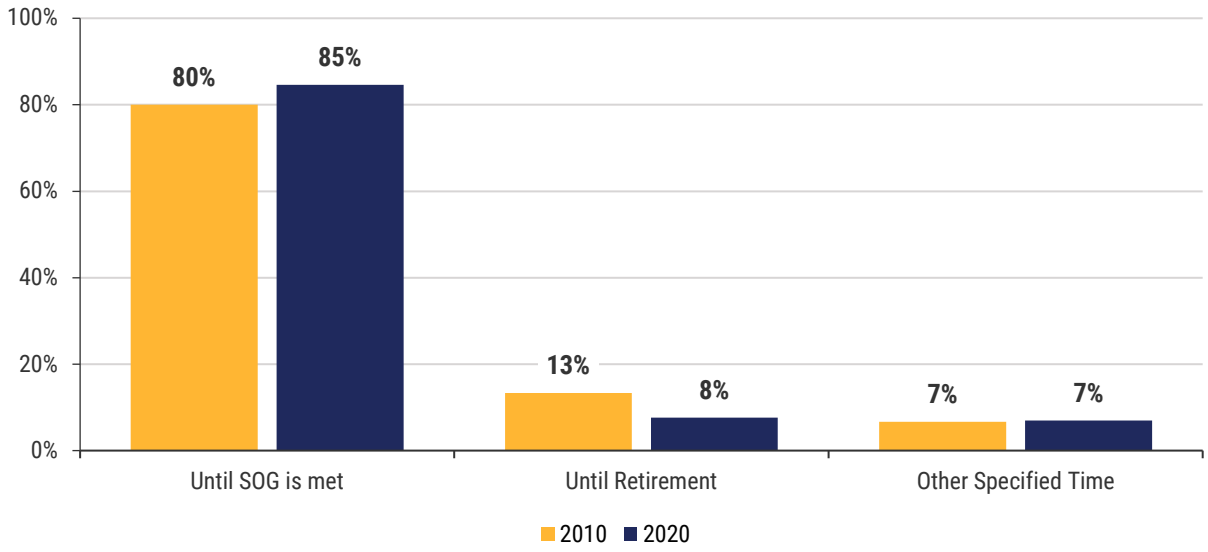


Stock Ownership Guidelines & Holding Req.

A majority of *Mid-Cap ClearBridge 100* companies (54%) disclose a post-vesting holding requirement for executives in 2020 (vs. 15% in 2010).

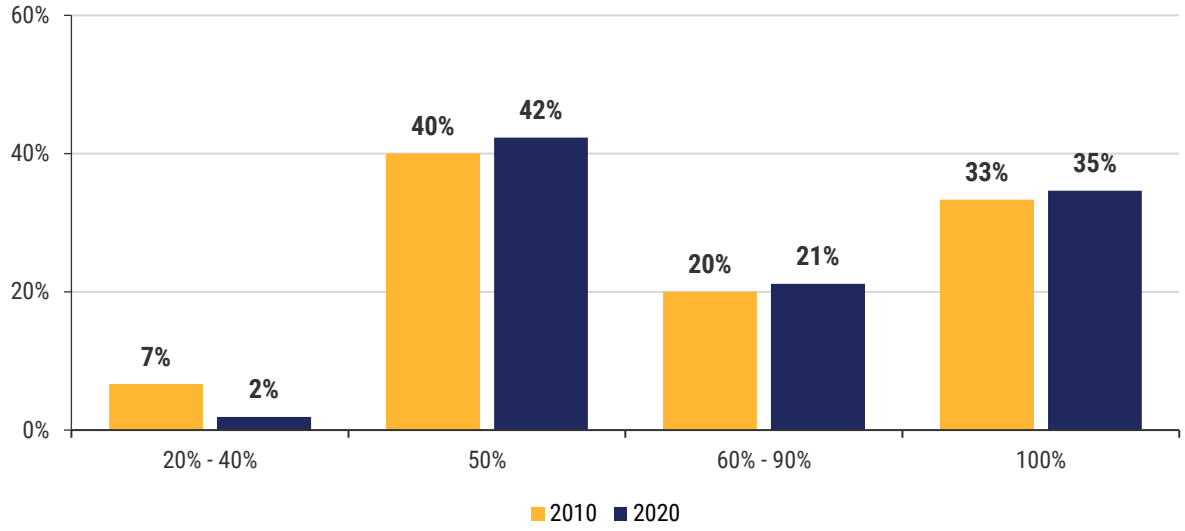
Post-Vesting Holding Requirements

Of the companies with post-vesting holding requirements in 2020, most require executives to hold all or a portion of vested and/or exercised shares, net of taxes, until stock ownership guidelines are met (85% in 2020 vs. 80% in 2010). Minority practices include holding until retirement or over a specified time.



Net Shares Required to be Held

Of companies with disclosed post-vesting holding requirements in 2020, the most prevalent percentage of net shares required to be held is 50% of net shares (42%), though it is also common to hold 100% of net shares (35%).



Over the last decade, companies have moved towards having a combination of both stock ownership guidelines and holding requirements. In 2020, 59% of companies with stock ownership guidelines also had a post-vesting holding requirement, an increase from 28% in 2010.

Clawback Policies

Stock Ownership Guidelines &
Holding Requirements

Anti-Hedging & Anti-Pledging Policies

Peer Group Approach

Perquisites

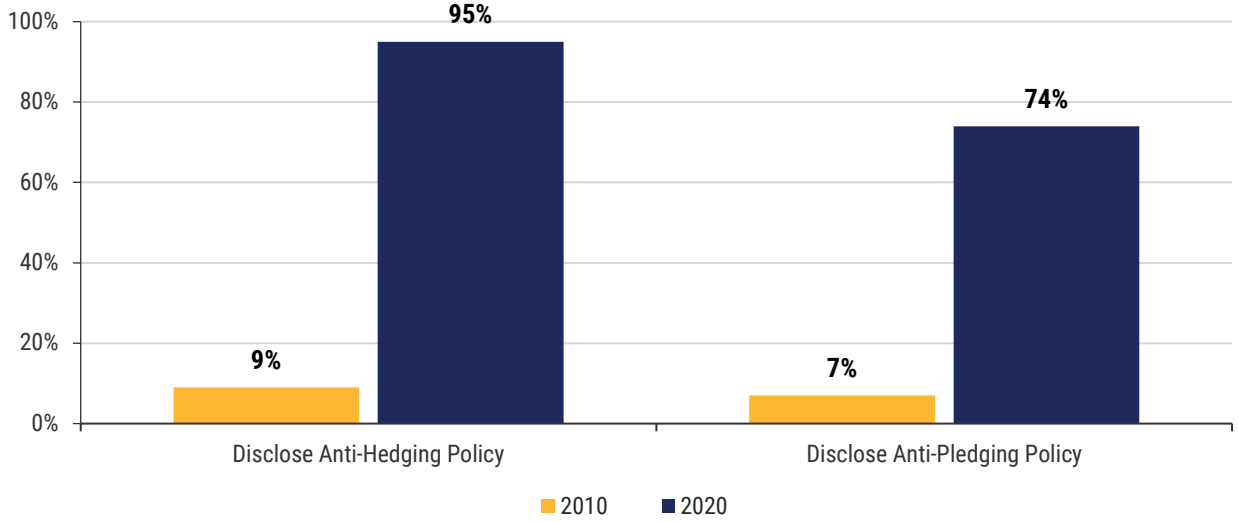
CEO Pay Ratio

Anti-Hedging and Anti-Pledging Policies

Prevalence of Anti-Hedging & Anti-Pledging Policies

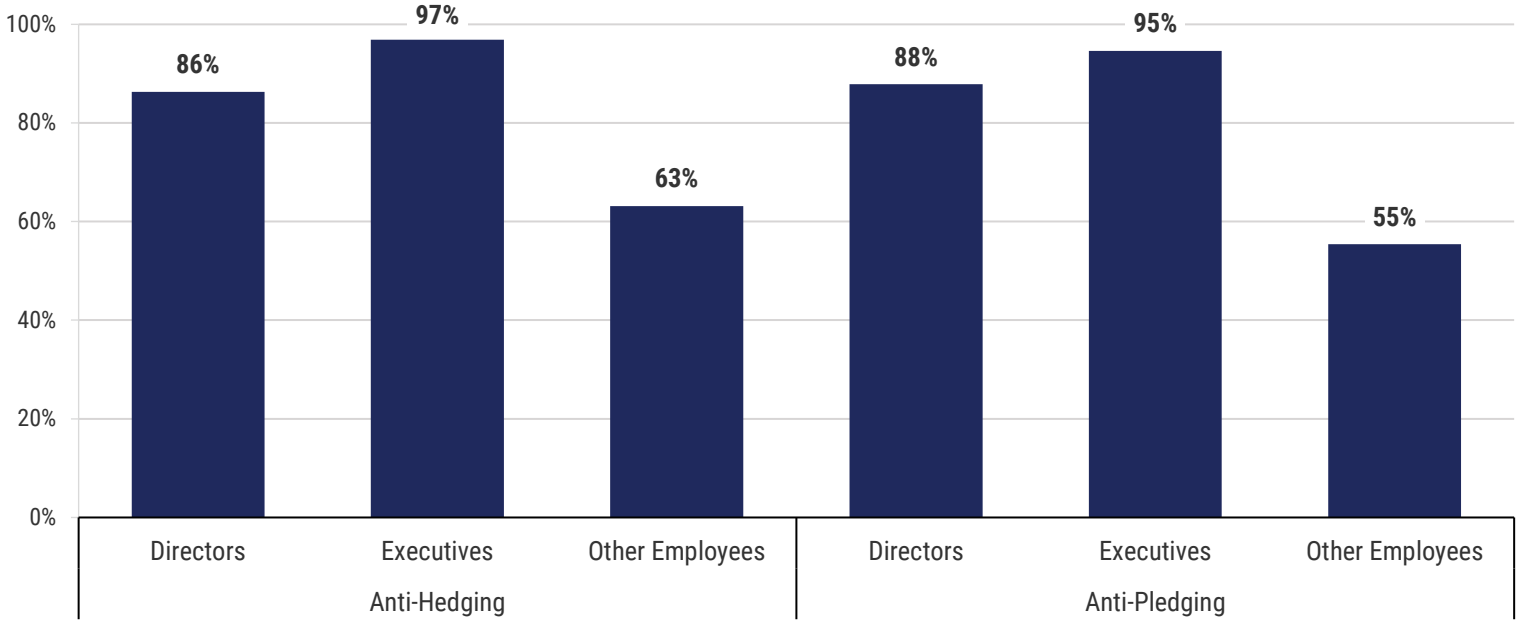
As context, the SEC now requires companies to disclose any practice/policy regarding the ability of directors, executives, or employees to engage in certain hedging transactions with respect to company equity. Note that this only requires a company to disclose its policy, not to adopt a policy.

Largely due to these relatively new disclosure requirements, 95% of *Mid-Cap ClearBridge 100* companies disclose having an anti-hedging policy in 2020, and 74% disclose an anti-pledging policy, an increase from 9% and 7%, respectively, in 2010. Note that more companies may have had such policies in 2010 but did not disclose them given they were not required to.



Individuals Covered by Policies (2020 Only)

Of companies with such policies disclosed, directors and executives are most typically covered by the policies (> 85% for both policies in 2020).



Note: 2010 not reflected above given small sample size

Clawback Policies

Stock Ownership Guidelines &
Holding Requirements

Anti-Hedging & Anti-Pledging Policies

Peer Group Approach

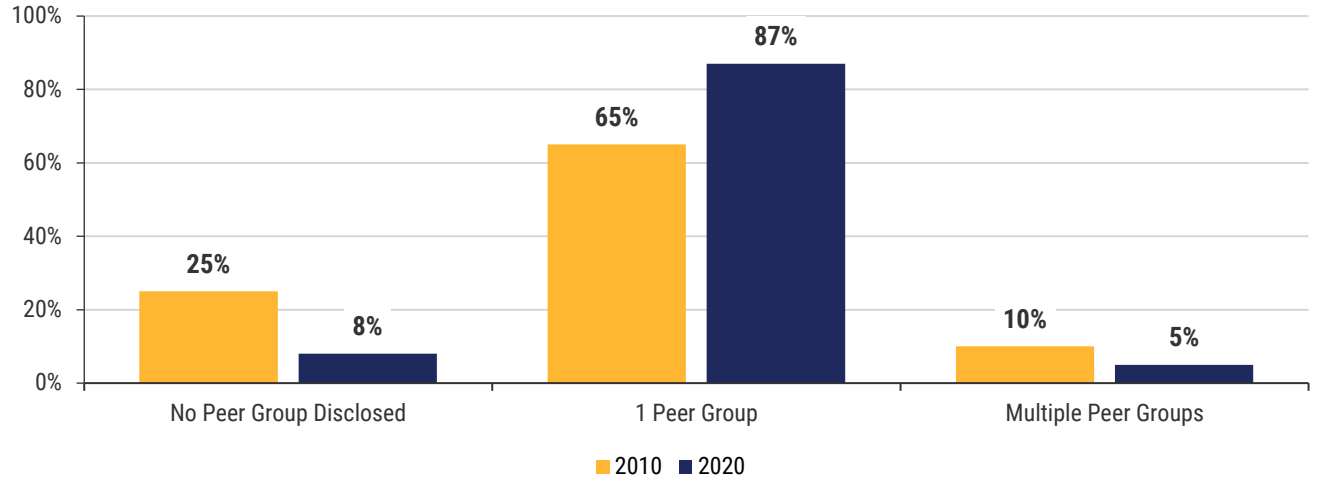
Perquisites

CEO Pay Ratio

Peer Group Approach

Peer Group Prevalence

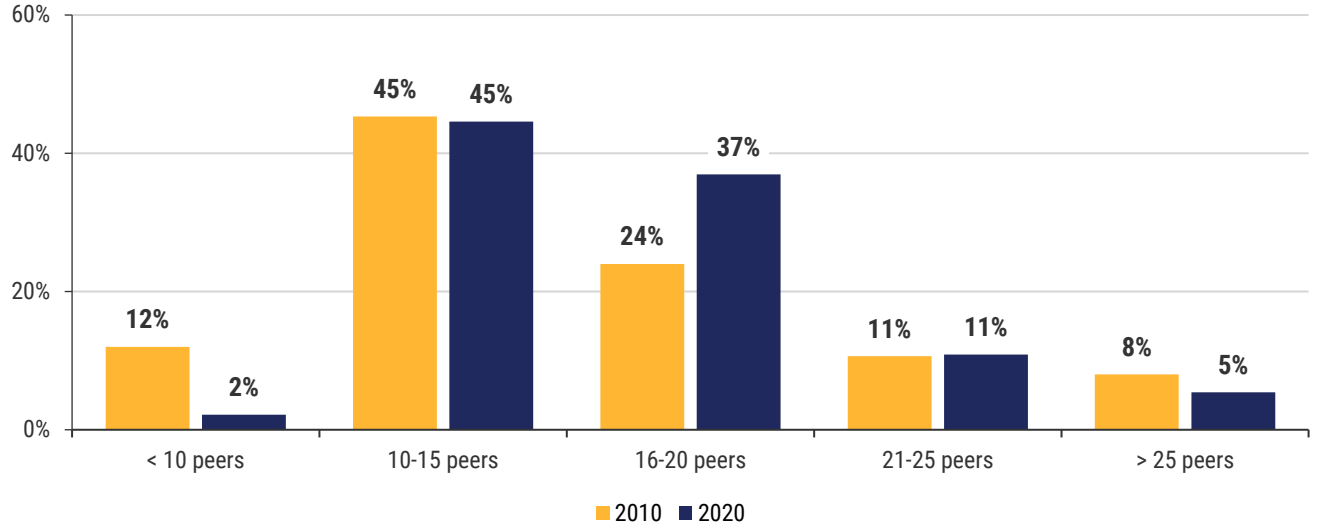
Most companies use one peer group (87% in 2020) to benchmark compensation, while 5% of companies also use a secondary peer group. Some companies do not use/disclose a peer group, either due to the use of survey data or a lack of compensation benchmarking, which has decreased in prevalence since 2010 (25% in 2010 vs. 8% in 2020).



Companies that use more than one peer group typically do so to provide a more robust sample size of data, often using criteria outside the parameters of their primary peer group (e.g., expanded size and/or industry criteria). This can help companies get a sense of what their industry is doing as well as the broad market.

Number of Peers in Primary Peer Group

Companies typically use 10-20 peers in their primary peer groups, with 10-15 peers being the most common size in 2020 (45%), followed by 16-20 peers (37%). Companies have shifted away from smaller peer groups in the past decade, likely to decrease volatility and mitigate the potential impact one company can have on the data as an outlier.



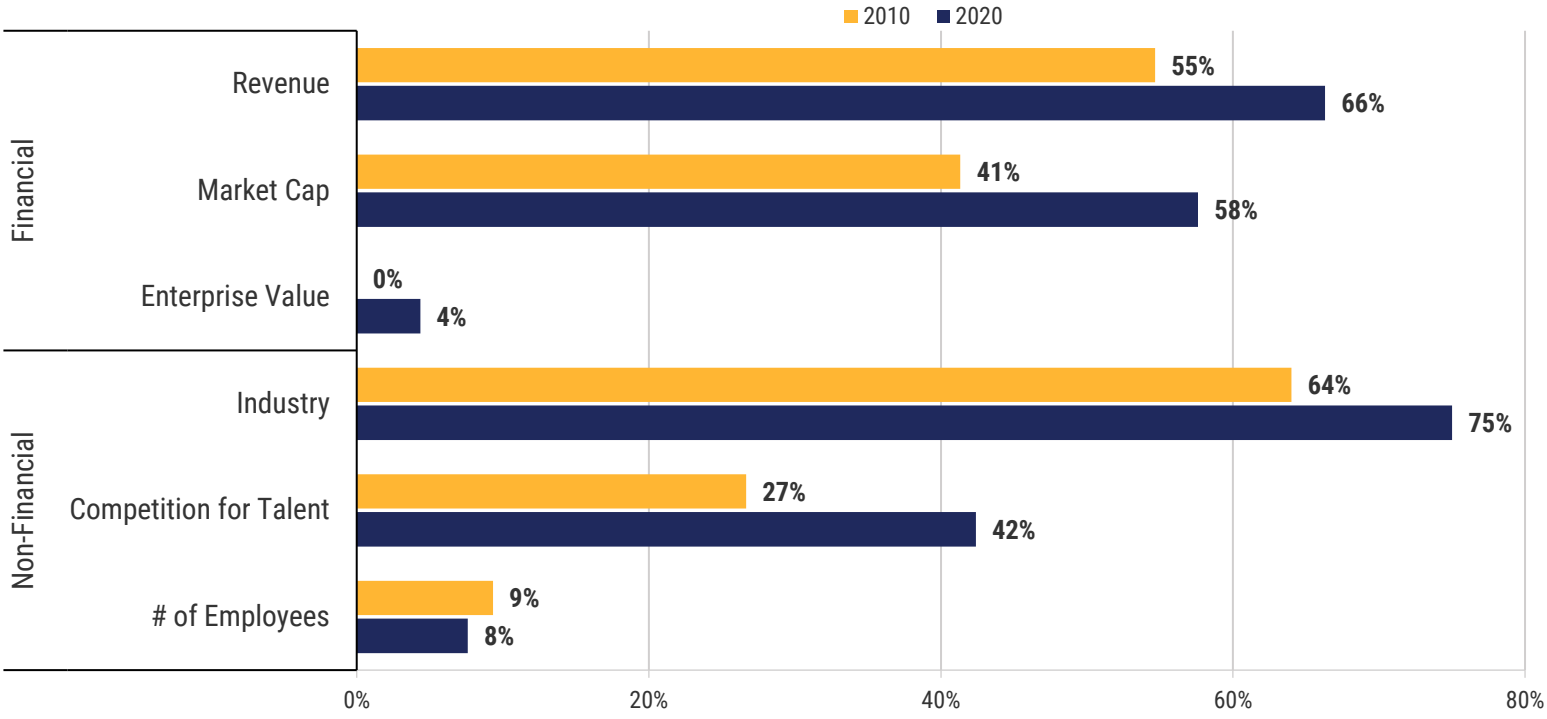
Peer Group Approach

Peer Group Criteria Disclosed

Revenue is the most common financial criterion (66%) considered by companies when developing a peer group, as compensation often tracks best with revenue (i.e., larger companies typically pay executives more). 22% of companies also disclose using other financial criteria such as assets, net income, total shareholder return, etc.

Industry continues to be the the most common non-financial criterion (75%) considered, with other important factors including (but not limited to) competition for talent and number of employees.

Companies may also consider criteria specific to their industry/business model (e.g., hotels using comparable revenue per available room, high-margin companies selecting peers based on EBITDA margin, etc.).



Note: The data reflected above is limited to company disclosure; criteria shown are likely considered by more companies in their peer group approach but may not be disclosed in the proxy as such.

Financial Parameters

Financial criteria are considered based either on a numeric value or on a multiple of the company's financials (e.g., a $2 billion company may consider peers from $1 – $4 billion in revenue, or from 1/2 – 2x their revenue, which is more dynamic). The latter is the more common approach in 2020, with companies typically considering peers from 1/2 to 2x their revenue.

Given the volatility of market capitalization, companies typically consider a wider range in their peer group approach (e.g., 1/4 to 4x).

Peer Group Approach

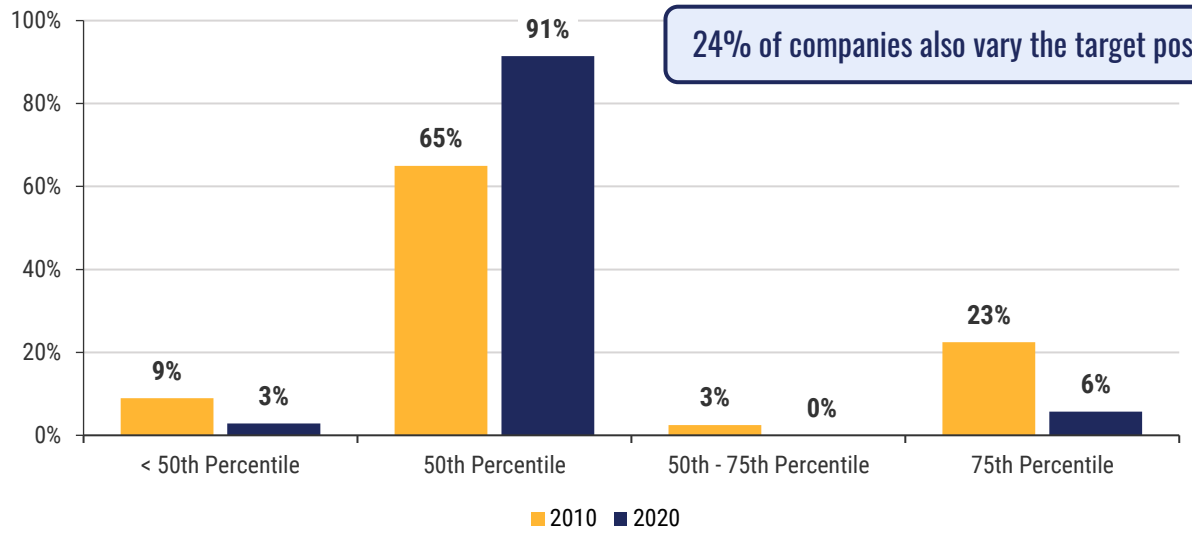
Companies that use peer groups to benchmark compensation may have a specific target compensation positioning philosophy to pay their executives.

Prevalence & Use of Target Compensation Positioning Philosophy

In 2020, 41% of companies disclose a target compensation positioning philosophy, consistent with 2010 (42%).

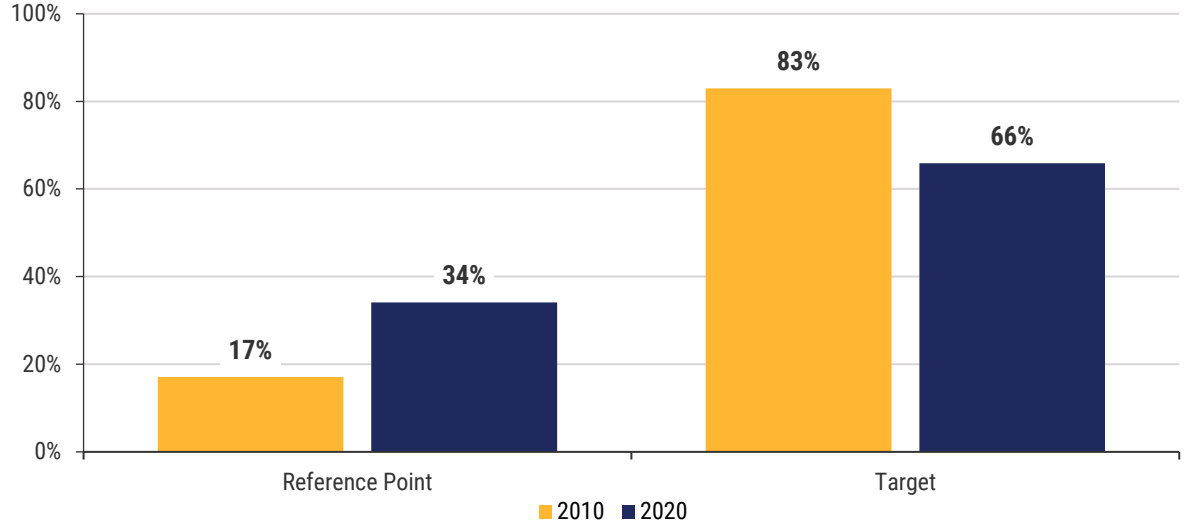
Of the companies that disclose a consistent target compensation positioning philosophy for NEOs, a large majority (91%) target the 50th percentile (median) of the respective comparator group (e.g., peer group) for their executives' pay. Over the last decade, companies have shifted towards using the median, and away from positioning above median (e.g., 75th percentile).

24% of companies also vary the target positioning by NEO.



Use of Percentile Positioning

Companies may use percentile positioning either as a general reference point (34%), or as a specific target that they benchmark to and pay their NEOs at (66%). Over the last decade, more companies have shifted towards using positioning as a reference point (i.e., positioning serves as just one input in their holistic review of executive compensation).



Clawback Policies

Stock Ownership Guidelines &
Holding Requirements

Anti-Hedging & Anti-Pledging Policies

Peer Group Approach

Perquisites

CEO Pay Ratio

Perquisites

Prevalence & Disclosed Value of Executive Perquisites

With a focus on limiting perquisites, many companies have taken a fresh look at their perquisite programs over the past ten years. While the percentage of companies providing at least one perquisite to at least one executive has decreased, the values provided have generally fluctuated (in both directions) based on the specific perquisite.

Note on Methodology: Perquisite prevalence/values based on Summary Compensation Tables. For Other NEOs, prevalence is counted if any NEO receives the perquisite; values below reflect an average perquisite value for each NEO who receives said perquisite at a company (excl. CEO).

While aircraft use among CEOs decreased in prevalence over the last decade, the median value of the perquisite increased by 61%.

	Perquisite Type	2010				2020				% Change in	
		Prev.	25 %ile	Median	75 %ile	Prev.	25 %ile	Median	75 %ile	Prev.	Median Val.
CEOs	Automotive Use	47%	$12,149	$18,873	$25,737	36%	$10,873	$19,735	$25,400	-11%	5%
	Professional Services	21%	$6,492	$14,160	$24,422	20%	$5,000	$9,000	$11,490	-1%	-36%
	Memberships (e.g., clubs)	17%	$5,392	$6,928	$7,791	12%	$3,825	$13,450	$21,817	-5%	94%
	Aircraft Use	22%	$52,763	$97,900	$267,540	11%	$94,732	$157,187	$235,616	-11%	61%
	Family Travel	6%	$1,067	$1,985	$16,096	7%	$773	$1,006	$1,238	1%	-49%
	Relocation	3%	--	--	--	4%	--	--	--	1%	--
	Housing	6%	$10,152	$31,334	$63,135	4%	--	--	--	-2%	--
Other NEOs	Automotive Use	47%	$9,817	$14,088	$21,105	38%	$8,726	$17,060	$24,549	-9%	21%
	Professional Services	30%	$4,118	$8,900	$17,234	22%	$4,563	$10,000	$18,399	-8%	12%
	Memberships (e.g., clubs)	21%	$1,467	$4,047	$6,643	18%	$2,574	$12,620	$17,319	-3%	212%
	Aircraft Use	15%	$12,829	$38,355	$177,517	8%	$17,615	$39,390	$84,837	-7%	3%
	Family Travel	6%	$5,826	$9,616	$19,450	6%	$4,712	$8,350	$11,987	0%	-13%
	Relocation	13%	$24,696	$75,835	$249,051	13%	$51,043	$81,817	$93,348	0%	8%
	Housing	9%	$16,718	$40,000	$67,927	4%	--	--	--	-5%	--

Note: Percentiles only reflected for perquisites with at least 5 applicable companies (i.e., n=5)

Clawback Policies

Stock Ownership Guidelines &
Holding Requirements

Anti-Hedging & Anti-Pledging Policies

Peer Group Approach

Perquisites

CEO Pay Ratio

CEO Pay Ratio

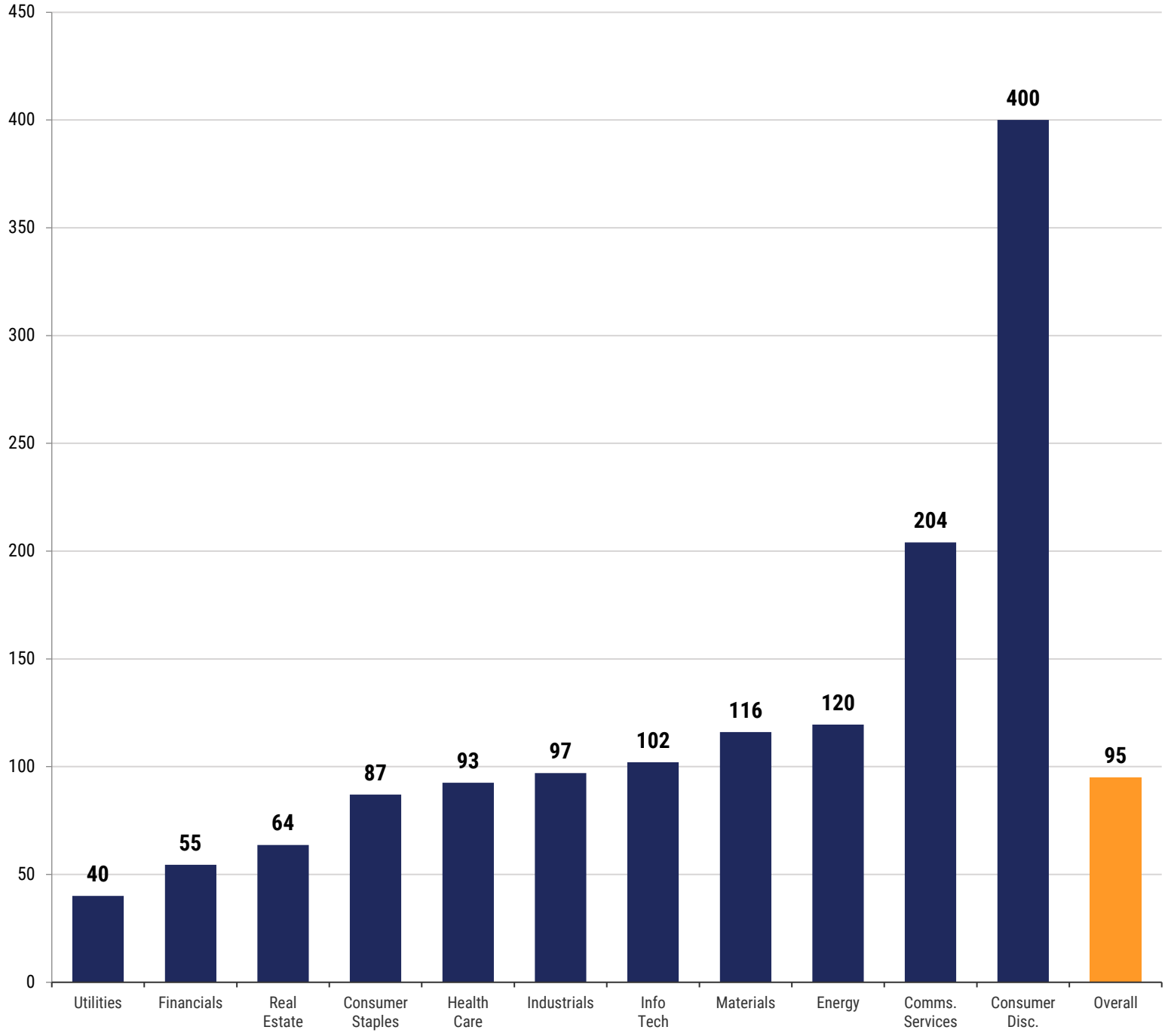
Median CEO Pay Ratio

Under the Dodd-Frank Act, companies are required (as of 2018 proxy statements) to disclose the ratio between the CEO's total compensation and the median employee's total compensation.

The largest CEO pay ratios are typically in sectors with a relatively large number of hourly employees (i.e., consumer discretionary).

95:1

2020 Median CEO Pay Ratio across *Mid-Cap ClearBridge 100* companies



Additional Information

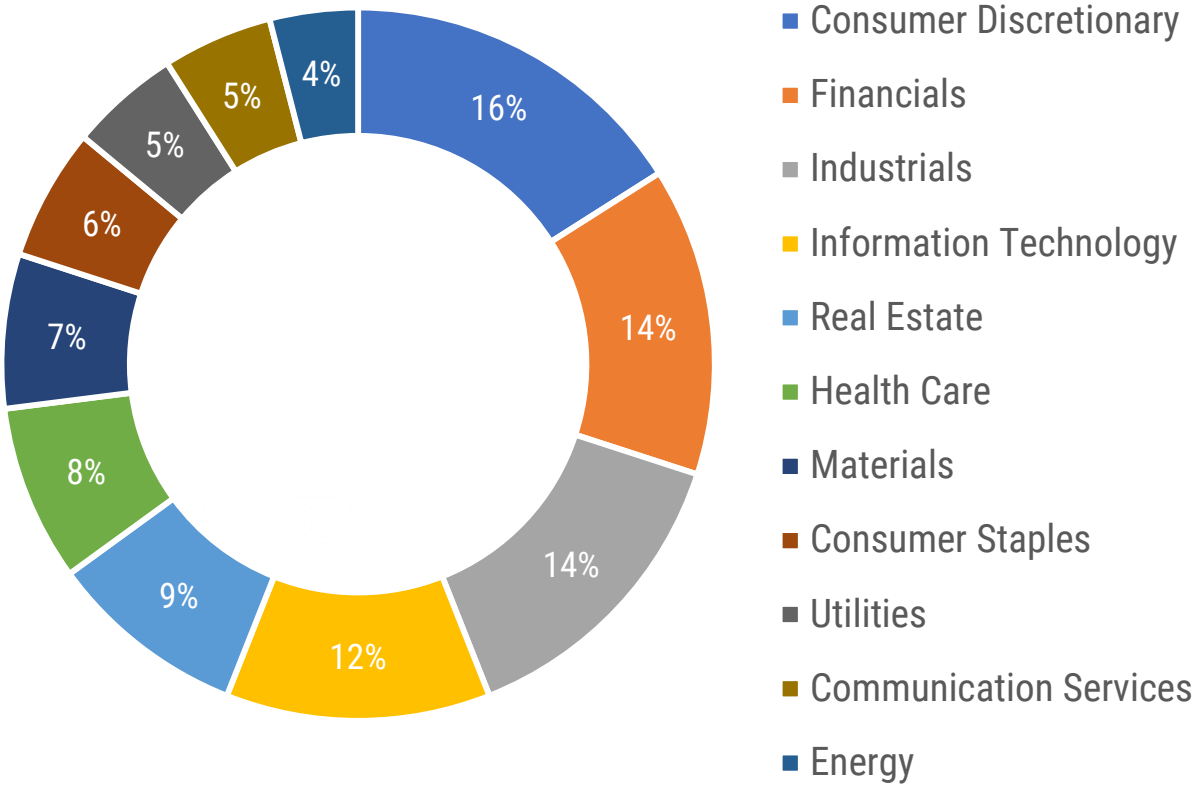
Mid-Cap ClearBridge 100 Composition

The *Mid-Cap ClearBridge 100* consists of 100 companies in the S&P MidCap 400® Index, selected to roughly approximate the industry composition and size of the S&P MidCap 400® in order to provide a representation of the mid-cap U.S. market. See the following page for a list of the companies included in the analysis.

Characteristics of the *Mid-Cap ClearBridge 100*

($ Millions)	Fiscal Year Revenue		Market Value as of	
	2009	2019	12/31/2009	12/31/2019
75th Percentile	$2,446	$3,888	$2,843	$5,906
Median	$1,177	$2,297	$1,577	$4,320
25th Percentile	$546	$1,319	$944	$2,915

Composition of the *Mid-Cap ClearBridge 100*



Mid-Cap ClearBridge 100 Composition

Mid-Cap ClearBridge 100 Companies	
ACI Worldwide, Inc.	ManpowerGroup Inc.
Affiliated Managers Group, Inc.	MasTec, Inc.
Alleghany Corporation	Mattel, Inc.
Amedisys, Inc.	Monolithic Power Systems, Inc.
American Eagle Outfitters, Inc.	MSC Industrial Direct Co., Inc.
Arrowhead Pharmaceuticals, Inc.	Murphy Oil Corporation
ASGN Incorporated	National Instruments Corporation
Bed Bath & Beyond Inc.	New Jersey Resources Corporation
Brown & Brown, Inc.	NorthWestern Corporation
Cantel Medical Corp.	Nu Skin Enterprises, Inc.
Chemed Corporation	Old Republic International Corporation
Churchill Downs Incorporated	Owens Corning
Cinemark Holdings, Inc.	Patterson-UTI Energy, Inc.
CNX Resources Corporation	Prestige Consumer Healthcare Inc.
Coherent, Inc.	Rayonier Inc.
Commvault Systems, Inc.	Reliance Steel & Aluminum Co.
Core Laboratories N.V.	Repligen Corporation
CoreCivic, Inc.	RLI Corp.
Dana Incorporated	RPM International Inc.
DICK'S Sporting Goods, Inc.	Sally Beauty Holdings, Inc.
Douglas Emmett, Inc.	SEI Investments Company
EPR Properties	Selective Insurance Group, Inc.
Essential Utilities, Inc.	Sensient Technologies Corporation
Evercore Inc.	Silicon Laboratories Inc.
Exelixis, Inc.	Skechers U.S.A., Inc.
FactSet Research Systems Inc.	Southwest Gas Holdings, Inc.
Federated Hermes, Inc.	Spire Inc.
First Financial Bankshares, Inc.	Steel Dynamics, Inc.
First Industrial Realty Trust, Inc.	Stericycle, Inc.
First Solar, Inc.	Taubman Centers, Inc.
Flowers Foods, Inc.	TEGNA Inc.
Foot Locker, Inc.	Telephone and Data Systems, Inc.
GATX Corporation	Teradyne, Inc.
Gentex Corporation	The GEO Group, Inc.
Graham Holdings Company	The Hain Celestial Group, Inc.
Helen of Troy Limited	The Scotts Miracle-Gro Company
Herman Miller, Inc.	The Toro Company
Hill-Rom Holdings, Inc.	The Wendy's Company
II-VI Incorporated	Tootsie Roll Industries, Inc.
Insperity, Inc.	TreeHouse Foods, Inc.
Interactive Brokers Group, Inc.	Trex Company, Inc.
Jack in the Box Inc.	Trimble Inc.
Jefferies Financial Group Inc.	United States Steel Corporation
John Wiley & Sons, Inc.	Urban Outfitters, Inc.
KAR Global	Weingarten Realty Investors
Lamar Advertising Company	Werner Enterprises, Inc.
Lancaster Colony Corporation	WEX Inc.
Legg Mason, Inc.	Williams-Sonoma, Inc.
Littelfuse, Inc.	World Wrestling Entertainment, Inc.
Louisiana-Pacific Corporation	XPO Logistics, Inc.

About ClearBridge

ClearBridge Compensation Group is an independent consulting firm providing advice to boards of directors and senior management on executive and board 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 collaborative 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:

Total Compensation Review & Design

Annual Incentive Design

Long-Term Incentive/Equity Compensation Design

Board of Directors Compensation

Pay-for-Performance Assessment

Proxy/CD&A Disclosure

Say-on-Pay Preparation & Shareholder Engagement

Employment Agreements, Severance, & Change-in-Control Arrangements

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

Contact Us

This report was authored by **Kristine Bhalla, Eric Labourdette,** and **Henri Halilaj**. For questions specific to this *ClearBridge 100* Report, or for more information on ClearBridge Compensation Group or any of our services, 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

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