**ISS and Glass Lewis – 2018 Voting Guideline Updates   
December 2017**

This outline summarizes the key changes to the voting guidelines announced by ISS and Glass Lewis for the 2018 proxy season.

**ISS Voting Policy Changes (effective for meetings held on or after February 1, 2018)**:

* ***Poison Pills***
  + ISS will recommend against all board nominees every year if a company has a long-term (more than one year) poison pill that has not been approved by shareholders
    - Pills adopted by shareholders pre-IPO are not exempt
    - Commitments to put a long-term plan to a vote at the next annual meeting will no longer be a mitigating factor
    - Previously grandfathered pills from 2009 will no longer be exempt
  + Short-term pills will continue to be assessed on a case-by-case basis based on the rationale articulated, including any commitment to seek shareholder approval for any renewal
* ***Disclosure of Shareholder Engagement in Response to Low Say-on-Pay Vote***
  + If a company receives less than 70% support for its prior year’s say-on-pay vote, ISS will evaluate whether the company made changes that respond to the low level of support for the company’s executive compensation in deciding whether to recommend against compensation committee members (or even the full board). As part of that assessment, ISS expects companies to disclose:
    - The timing and frequency of engagement with shareholders,
    - Whether independent directors participated, and
    - Specific concerns raised by shareholders that led to the low level of support, and actions taken by the company in response

These disclosure expectations are in addition to the existing guidance the ISS has provided regarding its assessment of a company’s responsiveness to a low say-on-pay vote.

* ***Pledging by Executives and Directors***
  + Consistent with its current practice, ISS will recommend against committee members, or the full board, that oversee stock pledging if an executive officer or director pledges a significant amount of stock. ISS will consider the following factors in its assessment:
    - Existence of an anti-pledging policy disclosed in the proxy statement that prohibits future pledging activity,
    - The number of shares pledged relative to the total shares outstanding, market volume and trading volume,
    - Disclosure of progress in reducing the number of shares pledged, and
    - Disclosure that stock ownership/holding requirements do not include pledged shares
* ***Shareholder Proposals on Gender Pay Gap***
  + ISS will make case-by-case recommendations on shareholder proposals requesting reports on gender pay gap issues. ISS will consider the following factors in its assessment:
    - The company’s policies and disclosure related to diversity and inclusion and its compensation philosophy,
    - Whether the company has been the subject to recent controversy, litigation or regulatory actions related to gender pay gap issues, and
    - Whether the company’s gender pay gap reporting lags its peers
* ***Pay for Performance - Financial Performance Assessment***
  + ISS will add a quantitative assessment that ranks a CEO’s total pay and company performance, within a peer group, over a three-year period, as an additional pay-for-performance measure for Russell 3000 companies. Most companies will be evaluated based on three or four of the following metrics:
    - ROIC
    - ROA
    - ROE
    - EBITDA Growth
* ***Director Attendance***
  + Directors who served for only part of the fiscal year and have not yet been elected by shareholders will generally be exempt from ISS’s director attendance policy
* ***Board Diversity***
  + ISS will “highlight” companies that do not have any gender diversity on the board, but it will not affect voting recommendations
  + ISS also changed its “Fundamental Principles” to state that boards should be sufficiently diverse to ensure consideration of a wide range of perspectives
* ***Shareholder Proposals on Climate Change*** 
  + ISS issued additional guidance on shareholder proposals requesting disclosure of operational and investment risk related to climate change to more closely align with recommendations of the Task Force on Climate-Related Financial Disclosures
* ***Change in Director Classifications***
  + Not a substantive change, but ISS will now classify directors in the following categories:
    - Executive Director (previously Inside Director)
    - Non-Independent Non-Executive Director (previously Affiliated Outside Director)
    - Independent Director (previously Outside Director)

Beginning in 2019

* ***Non-Employee Director Compensation***
  + ISS will recommend against/withhold from board or committee members who approve non-employee director compensation if there is a recurring pattern of excessive non-employee director compensation unless the company provides a compelling rationale or has other mitigating factors. This will be triggered if a company’s executive compensation is excessive compared to its peers for two or more consecutive years.

**Glass Lewis Voting Guideline Changes**:

* ***Dual-Class Share Structures***
  + Glass Lewis will consider the adoption of dual-class share structures with more scrutiny, particularly for newly-public companies (such as IPOs or spin-offs), in determining whether to recommend against board members for having anti-takeover provisions or restrictions on shareholder rights. Established companies with dual-class structures will be less impacted.
* ***Board Responsiveness***
  + Glass Lewis will evaluate board responsiveness to key company proposals (election of directors and say-on-pay) if more than 20% of the votes were cast against the proposal (instead of the prior 25% vote against threshold for heightened scrutiny).
* ***Director Commitments***
  + Glass Lewis clarified that if a director is an executive officer, but not a CEO, of another company, Glass Lewis will decide whether its overboarding policy limiting boards to a total of two should apply to that director based on their specific duties and responsibilities in their executive role and the company’s disclosure regarding the director’s time commitments.
* ***CEO Pay Ratio***
  + Glass Lewis noted that they will disclose the CEO pay ratio in its proxy papers, but it won’t factor into voting recommendations at this time.
* ***Pay for Performance***
  + Glass Lewis clarified that its pay-for-performance rating system, which uses grades (A, B, C, D, etc.) are based on ratings relative to peers, not an objective grading system. As a result, a grade of “C” means that pay and performance are aligned. Glass Lewis will continue to recommend against compensation committee members at companies with a pattern of failing Glass Lewis’ pay-for-performance analysis.

Beginning in 2019

* ***Board Gender Diversity***
  + Beginning in 2019, Glass Lewis will recommend voting against/withhold from nominating committee chairs (or other board members) of boards with no female directors unless the company has disclosed a sufficient rationale or a plan to address the lack of diversity. This policy will likely apply only to Russell 3000 companies.
* ***Virtual Shareholder Meetings***
  + Beginning in 2019, Glass Lewis will recommend against governance committee members that plan to hold virtual-only meetings unless they provide the same rights to participate as are available at an in-person meeting. Companies holding virtual-only meetings should ensure that the proxy statement discloses the rights of shareholders participating at virtual-only meetings.