

Assessment of ClearBridge 100: ISS QuickScore Results

By Kristine Bhalla and Tadashi Shida

ISS Governance QuickScore, which is designed to identify governance risk within portfolio companies, replaced the former GRId database on February 25, 2013. QuickScore assesses companies' governance practices in four "pillars": Board Structure, Compensation, Shareholder Rights, and Audit. The final score on each of the four pillars, as well as an Overall score, is presented as an integer from 1 to 10 which indicates the decile of the company's governance score relative to other companies. A score of 1 indicates the top decile, or the lowest relative governance risk (see [MARKETupdate](#) for more information about QuickScore).

ClearBridge Compensation Group analyzed QuickScore results as of April 1, 2013, as well as the prior proxy season's 2012 Say on Pay vote recommendations and vote results, for the *ClearBridge 100** companies. This report presents the findings of these analyses.

Key Findings

- Of the four governance pillars, Compensation is the most highly correlated with the Overall QuickScore, by a significant margin.
- While QuickScore is not a direct input to ISS' Say on Pay evaluation process, Compensation QuickScores demonstrate a strong link with ISS' Say on Pay vote recommendations.
 - 97% of companies that scored a "6" or better on Compensation QuickScore received a "for" vote recommendation in 2012.
 - 71% of companies that scored a "10" on Compensation QuickScore received an "against" vote recommendation in 2012.
- ISS has significant influence on the vote outcome. When *ClearBridge 100* companies received an "against" recommendation from ISS on Say on Pay, median Say on Pay vote results were only 59%, vs. 95% when ISS recommended "for" Say on Pay.

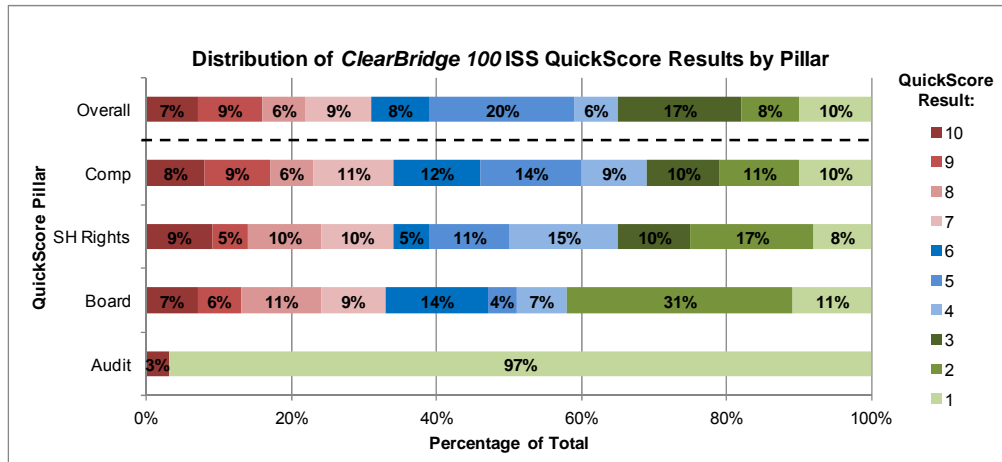
* The *ClearBridge 100* is comprised of 100 S&P 500® companies to provide a database representative of executive compensation practices and trends of the broad U.S. market.



ClearBridge 100 ISS QuickScore Results

With the exception of the Audit pillar, the distribution of Overall and individual pillar QuickScores among *ClearBridge 100* companies is generally similar – approximately one-third of companies scored a “3” or better, “4” to “6”, and “7” or worse, with some variation by pillar. Shareholder Rights and Board Structure are skewed slightly more towards the upper and lower ranges versus Compensation and Overall. Audit scores are polarized, with 97% of companies scoring a “1” and 3% of companies scoring a “10”.

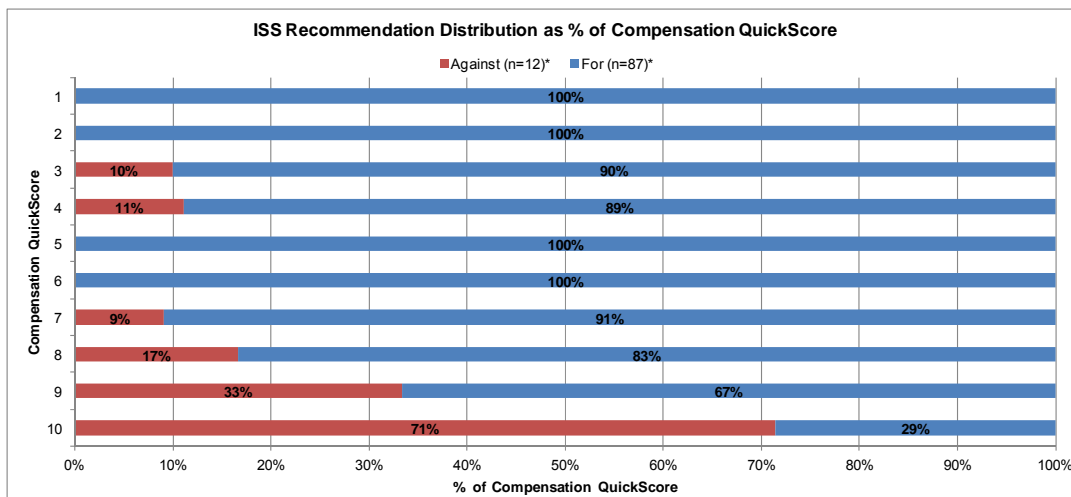
Of the four QuickScore pillars, Compensation is most highly correlated with the Overall QuickScore result ($R^2 = 0.5512$), followed by Shareholder Rights ($R^2 = 0.2939$), Board ($R^2 = 0.0297$) and Audit ($R^2 = 0.0001$).



Impact of 2012 ISS Say on Pay Voting Results & Recommendations on Compensation QuickScore

While QuickScore is not used as a direct input to ISS’ Say on Pay evaluation process, there is a clear relationship between ISS Say on Pay recommendations and the Compensation QuickScore. At one end of the spectrum, 97% of Companies scoring a “6” or better on the Compensation QuickScore received “for” recommendations. While at the opposite end of the spectrum, among those companies that received a “10” Compensation QuickScore, indicating the highest level of governance risk, 71% were companies that received an “against” recommendation.

Additionally, likely reflective of the link between Say on Pay vote recommendations and the Compensation QuickScore, those companies with higher 2012 Say on Pay vote results tended to score better on the Compensation QuickScore.

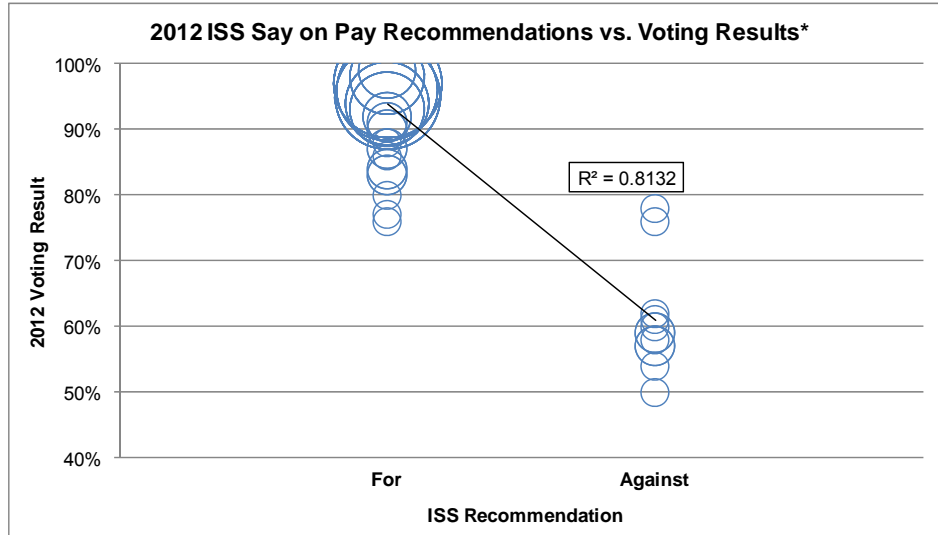


*ISS did not issue a 2012 Say on Pay recommendation for one *ClearBridge 100* company



2012 ISS Say on Pay Recommendations vs. Voting Result

In 2012, ISS Say on Pay vote recommendations for the *ClearBridge 100* were highly correlated with vote results. Companies that received a “for” recommendation received at least a 75% approval vote (95% median result). Comparatively, companies with an “against” recommendation, typically received an approval rate of <65% (59% median result), with few exceptions.



*Size of bubble reflects % of *ClearBridge 100* companies receiving a particular voting result (i.e. larger bubble size reflects higher % of companies with a particular voting result)

One of these exceptions, ExxonMobil, engaged in aggressive shareholder engagement to counteract the ISS recommendation. In addition to their proxy materials, ExxonMobil preemptively provided shareholders with additional compensation-focused disclosure. Following the release of ISS’ “against” recommendation, the company reached out to shareholders with a short memo stating their opposition to the ISS recommendation and began additional shareholder engagement. This process culminated in a shareholder-wide webcast on the merits of the executive compensation program. This example demonstrates how shareholder engagement can play a significant role in overcoming an ISS “against” recommendation.

Conclusion

ISS’ new QuickScore governance rating system, while not a direct driver of ISS Say on Pay voting recommendations, gives additional insight into ISS’ policies on governance practices. Given the impact QuickScore results may have on future Say on Pay voting recommendations and vote results, companies should be mindful of their QuickScores as they continue to assess their compensation programs.

To discuss this topic and any additional issues, please contact us at (212) 886-1022.

ClearBridge Compensation Group is an independent consulting firm providing advice to boards of directors and senior management on the design of effective executive compensation programs. Our aim is to establish transparent connections between management and shareholders and understandable links between performance and compensation. To learn more about ClearBridge, please visit our website www.clearbridgecomp.com.

