

COMPENSATION SCORECARD METHODOLOGY

The 2019 executive compensation methodology for companies in the Russell 3000 consists of both a quantitative and a qualitative assessment (also referred to as the “quantitative scorecard” and “qualitative scorecard”). Used in combination, these assessments will determine the scope of Northern Trust Asset Management’s (NTAM) proxy engagement and proxy voting activities as they relate to executive compensation in 2019.

QUANTITATIVE SCORE CARD

The quantitative scorecard is intended to screen companies for engagement, focusing in on companies whose pay appears out of line with their fundamental performance based on relative overall average spread between fundamental performance indicators, total shareholder return (TSR) and CEO total compensation. It consists of the following parts:

1. Three sets of percentile rankings across five 1-year performance periods:

A

A percentile ranking the CEO’s total granted pay relative to industry or peers identified in the proxy statement¹.

B

Percentile rankings of nine unique fundamental performance indicators relative to the same peer group in box a.

C

A percentile ranking of the company’s TSR relative to the same peer group in box a.

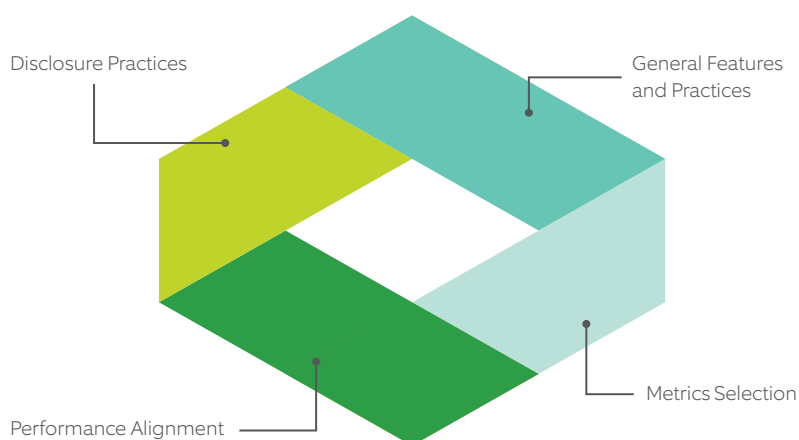
2. A “fundamental spread” between the CEO’s pay percentile and each fundamental performance indicator’s percentile for each performance year is calculated and averaged in each year resulting in a set of five annual fundamental spreads.
3. A “TSR spread” is calculated between the CEO’s pay percentile and the 1-year TSR performance for each performance year, for a set of five TSR spreads.
4. An average spread of the fundamental spreads and TSR spreads, at equal weights, is calculated to arrive at an “overall average spread”.
5. Each company is ranked by its overall average spread within its GICS industry group (2-digit GICS group).

¹: S&P 500 companies are ranked amongst peers identified in the proxy statement; Russell 3000 companies (ex. S&P 500) are ranked against their industries (4-digit GICS group)

Companies that fall within the bottom 10th percentile of their respective sectors² will be the focus of NTAM's compensation engagements for 2019, and will also be subject to the qualitative assessment described below. NTAM will continue to engage with companies in the Russell 3000 that have received less than 70% support on a management say-on-pay proposal (MSOP) in the prior year and where Northern Trust holds 1.5% or more of the total votable shares even if they do not fall within the bottom rankings of their GICS sectors under the quantitative assessment.

QUALITATIVE SCORE CARD

The qualitative scorecard assesses the features and disclosures of the company's compensation plan. It consists of four segments:



Within each segment, there are a series of factors, each of which carry a range of point values. Companies that fail the qualitative scorecard will be flagged for a potential negative vote on the company's advisory vote to ratify named executive officers' compensation at the next annual general meeting of shareholders.

2: NTAM may establish alternate thresholds for sectors with fewer than 50 constituent companies

IMPORTANT INFORMATION. The information contained herein is intended for use with current or prospective clients of Northern Trust Investments, Inc. The information is not intended for distribution or use by any person in any jurisdiction where such distribution would be contrary to local law or regulation. Northern Trust and its affiliates may have positions in and may effect transactions in the markets, contracts and related investments different than described in this information. This information is obtained from sources believed to be reliable, but its accuracy and completeness are not guaranteed. Information does not constitute a recommendation of any investment strategy, is not intended as investment advice and does not take into account all the circumstances of each investor. Opinions and forecasts discussed are those of the author, do not necessarily reflect the views of Northern Trust and are subject to change without notice.

This guide is provided for informational purposes only and is not intended to be, and should not be construed as, an offer, solicitation or recommendation with respect to any transaction and should not be treated as legal advice, investment advice or tax advice. Recipients should not rely upon this information as a substitute for obtaining specific legal or tax advice from their own professional legal or tax advisors. References to specific securities and their issuers are for illustrative purposes only and are not intended and should not be interpreted as recommendations to purchase or sell such securities. Indices and trademarks are the property of their respective owners. Information is subject to change based on market or other conditions.

Northern Trust Asset Management is composed of Northern Trust Investments, Inc., Northern Trust Global Investments Limited, Northern Trust Global Investments Japan, K.K, NT Global Advisors Inc., 50 South Capital Advisors, LLC and investment personnel of The Northern Trust Company of Hong Kong Limited and The Northern Trust Company.

© 2018 Northern Trust Corporation. Head Office: 50 South La Salle Street, Chicago, Illinois 60603 U.S.A.