



2017 **Proxy Season Innovations**

Introduction

At Argyle, our mission is to help our clients enhance and align their disclosures to communicate with investors and stakeholders in a positive and meaningful way.

As we begin to review and assess the 2017 proxy season to date, particularly the disclosures of December 31 year-end issuers, we are inspired by companies that clearly view their disclosures not only as compliance requirements, but also as messaging opportunities.

The following pages showcase a selection of noteworthy innovations, through which companies are changing the architecture of disclosures with dynamic reporting, providing a window into the Boardroom with “beyond compliance” governance information and recognizing that, with respect to executive compensation, more is not necessarily *more*.

These trend-leaders are presenting information of significant interest to shareholders in creative and effective ways that also reflect the character and values of each company.



Dynamic Reporting

We have long believed that the model for the future is a comprehensive reporting strategy, treating disclosures as an ensemble rather than distinct elements. Accordingly, we are encouraged to see companies beginning to plan year-end reports as a suite of related documents, both in content and voice. Trends show a shift in how and where information is compiled and presented to shareholders.

INTEGRATED REPORTS

“Integrated reporting” is a trendy term often used broadly to describe any combination of various shareholder communications. HP Inc.’s recent take on integrated reporting raises the bar. HP’s 2016 annual report begins with a message from the President and CEO, followed by a presentation of themes of interest to investors, with a particular spotlight on strategy, performance, corporate governance and the Board, shareholder engagement and sustainability. This information is presented cohesively in a crisp and impactful “wrap” - before readers even begin to digest the core elements of the proxy statement or Form 10-K. Together with its interactive 2017 annual meeting website, HP created a one-stop shop for shareholders to find information to inform their vote. At the same time, HP’s integrated report and website provide the opportunity to unify messaging to present a clear review of performance over the prior year and the leadership and strategy in place to create sustainable long-term shareholder value.



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HP Combined Annual Report:

<http://www.hpannualmeeting.com/docs/HP-Full-Report.pdf>





COMPREHENSIVE ONLINE SHAREHOLDER RESOURCES

Continuing with the theme of effective digital disclosures, Caterpillar Inc. recently launched an “annual resources” website compiling year-end reports and information of interest to investors in advance of the annual shareholder meeting.

Caterpillar’s approach clearly considers and responds to feedback we routinely hear from investors requesting easily downloadable and searchable content (beyond the proxy statement).

The website includes links and easy-to-navigate tools to view the annual report, proxy statement, performance results, strategic initiatives and sustainability report. Caterpillar effectively conveys the company values of responsibility, integrity and commitment by adding content that provides visibility into operations, and linking values to drivers of sustainable performance.


[HOME](#) / [2016 ANNUAL REPORT](#) / **BUILDING A BETTER CATERPILLAR**


Whether paving roads, mining essential commodities or extracting the fuels to satisfy global energy demand, Caterpillar's products are helping to build a better world.

And we're doing the same for our business.

Though we operate in cyclical markets, we're on a journey of continuous improvement in critical areas such as quality, safety and digital technology – working to build better and grow stronger every day. At Caterpillar, we're building better every day.

BUILDING A BETTER CATERPILLAR






470,000
CONNECTED
ASSETS

IN 2016, WE SPENT
ALMOST

\$2
BILLION

ON R&D



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Caterpillar Annual Meeting website
<https://caterpillarannualresources.com/index.html>

HP Annual Meeting website
www.hpannualmeeting.com

Southwestern Energy Annual Meeting website
www.swnannualmeeting.com

Allstate Interactive Proxy Statement website
www.allstateproxy.com

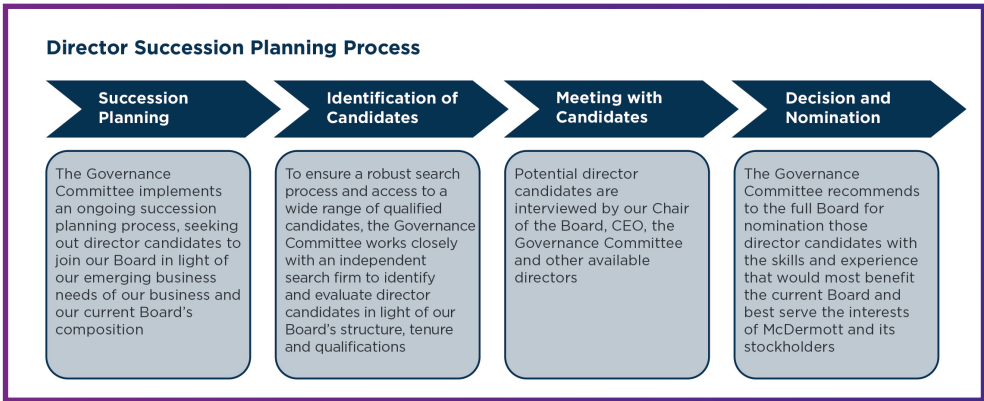
Boardroom Transparency

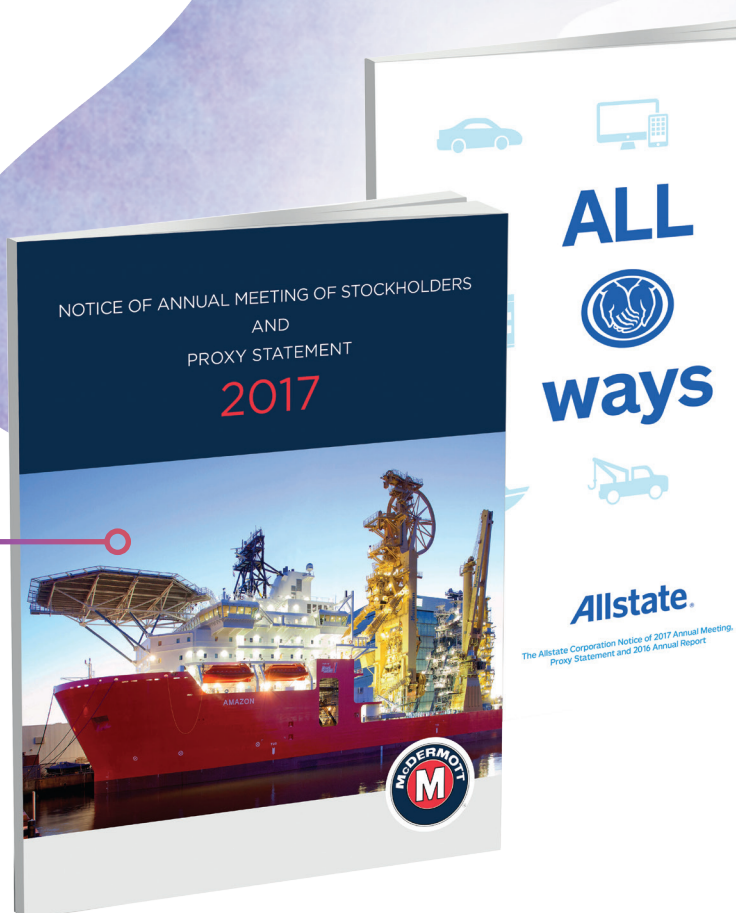
Boilerplate language has become the norm for required Board-level corporate governance disclosures. However, companies are better able to present an active and engaged Board when disclosures provide visibility into the Boardroom to reveal robust processes and protocols. “Beyond compliance” reporting addresses investors’ requests to understand key considerations in Board decision-making.

BOARD REFRESHMENT

Investors have been requesting additional disclosures surrounding the identification and selection of director candidates for years. The “skill matrix” – which presents, in various forms, the competencies of either each individual director, the Board as whole, or both – is a positive development as it provides insight into the factors used by the Board to evaluate composition. However, this information alone still does little to describe how and when decisions are made and we typically do not get a sense of the Board’s long-term view. This year we are seeing expanded disclosures around the processes and considerations for nominating new directors. In its 2017 proxy statement, McDermott International expanded its

previous disclosures on Board refreshment and utilized a simple infographic to illustrate its multi-step process. Through its discussion of ongoing succession planning (considering vacancies due to retirement or in light of competencies necessary to support emerging businesses), the McDermott Board demonstrates self-awareness and foresight. Allstate also focused on Board refreshment disclosures this year, stating that the Board is continuously engaged in succession planning, and providing data about the number of directors considered and added in the past five years. The additional information adds insight into Board activities and validates its processes.





NOMINATION PROCESS FOR BOARD ELECTION

The Board continuously identifies potential director candidates in anticipation of retirements, resignations, or the need for additional capabilities. The graphic below describes the ongoing nominating and governance committee process to identify highly qualified candidates for Board service.

Consider current Board skill sets and needs	Ensure Board is strong in core competencies of strategic oversight, corporate governance, stockholder advocacy and leadership and has diversity of expertise and perspective to meet existing and future business needs
Check conflicts of interest and references	All candidates are screened for conflicts of interest, and all directors are independent, except the CEO
Nominating and governance committee dialogue	Considered 112 candidates since 2011
Meet with qualified candidates	To ensure appropriate personal qualities, such as independence of mind, being a team player, tenacity, and skill set to meet existing or future business needs
Nominating and governance committee dialogue	To consider shortlisted candidates and after deliberations, recommend candidates for election to the Board
Board dialogue and decision	Added seven highly qualified directors in the past five years

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McDermott International Proxy Statement

phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9NjYzNjI5fENoaWxkSUQ9MzcxMTYxfFR5cGU9MQ==&t=1

Allstate Proxy Statement

https://allstateproxy.com/uploads/AllState_2017_AM_materials_full_report.PDF

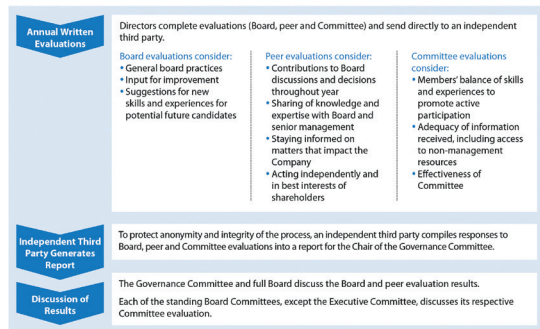
BOARD EVALUATIONS

In 2014, Council of Institutional Investors released a white paper highlighting disclosures around Board evaluations (when, at the time, such disclosures were limited). Responding to requests from CII and other investors, improvements in this area are slowly beginning to evolve. Some companies, such as McDonald's and American Express, are taking the lead by not only expanding their disclosures, but finding

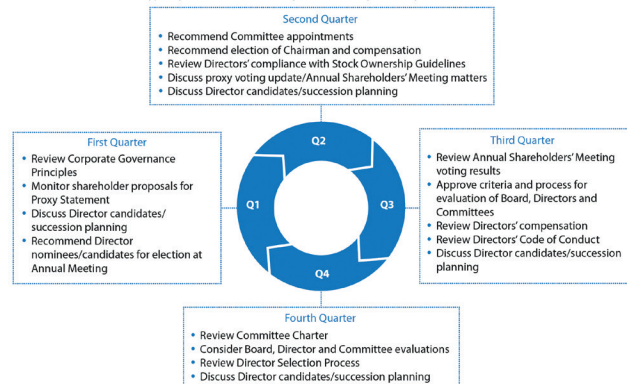
effective ways to communicate their Board processes. McDonald's 2017 proxy statement includes an infographic highlighting its three-pronged approach. Similarly, American Express for the second year used a visual presentation to demonstrate its multi-step process, and included recent changes implemented in response to the evaluation feedback.

EVALUATIONS

The Board is committed to regular evaluations of itself, its Committees and individual Directors. Each year, the Directors are asked to complete a written evaluation of the Board, their peers and the Committees on which they serve. The following graphic illustrates the process by which the Board currently carries out its evaluations:



The Governance Committee typically considers the following matters throughout the year:



McDonald's Corporation
NOTICE OF 2017 ANNUAL MEETING
AND PROXY STATEMENT



CORPORATE GOVERNANCE AT AMERICAN EXPRESS

Our Board's Role and Responsibilities, Structure and Processes

The table below summarizes our Board Evaluation process.

1 Corporate Governance Review

Our Nominating and Governance Committee reviews our Corporate Governance Principles in light of general corporate governance developments and practices suggested by governance organizations and investors, and recommends changes that it believes are appropriate to maintain high standards of governance.

2 Annual Board and Committee Evaluations

The format is reviewed by the Nominating and Governance Committee.

We currently use a questionnaire that is tailored to address the significant processes that drive board effectiveness.

The questionnaire elicits discussion through open-ended questions.

3 Summary of the Written Evaluations

The Company's Secretary summarizes the responses, showing trends since the prior year and written comments, which are shared with the Board and committee members. Responses are not attributed to specific individuals to promote candor.

4 Board and Committee Review

The Chairman of the Nominating and Governance Committee and each committee chair leads discussions of the Board and each committee, using the questionnaire as a guide. Management is not present. Committee chairs report on their evaluations to the full Board.

As an outcome of the discussions, directors deliver feedback to the Chairman of the Board and suggest changes and areas for improvement.

5 Actions

Examples of changes made in response to this process over the years have included:

- Formed the Innovation and Technology Committee to enable a deeper focus in this area
- Enhanced the information regularly provided to directors
- Changed the format of board meetings to enable more time for director discussion with and without the CEO present
- Changed the format of materials to combat "information overload" and to enable directors to focus on the key data
- Increased informal meetings between directors and key executives
- Provided director training on emerging risk areas
- Added international board members and increased the diversity of the Board



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American Express Proxy Statement

<http://ir.americanexpress.com/Cache/1001221681.PDF?O=PDF&T=&Y=&D=&FID=1001221681&iid=102700>

CII White Paper

http://www.cii.org/files/publications/governance_basics/08_18_14_Best_Disclosure_Board_Evaluation_FINAL.pdf

McDonalds Proxy Statement

<http://corporate.mcdonalds.com/content/dam/AboutMcDonalds/Investors/2017%20Notice%20of%202017%20Annual%20Meeting%20and%20Proxy%20Statement.pdf>

MANAGEMENT SUCCESSION AND ORGANIZATIONAL HEALTH

Succession planning disclosures have historically been limited to brief statements about the role of the Board and identifying committees involved in the process. More recently, responding in part to investor interest in this area, companies have expanded the disclosures to address the Board's evaluation of senior leadership beyond the CEO. In 2017, we witnessed more discussion around the concept of "organizational health" and the Board's role in talent identification, development and retention. Allstate's disclosure stands out on this topic, providing in its 2017 proxy statement an overview of the Board's succession oversight responsibilities and practices over the year. The take-away from these disclosures is a proactive

Board prioritizing long-term organizational stability and prepared for multiple leadership transition scenarios.

In addition to ongoing succession planning, we are also seeing expanded disclosures around the CEO hiring process in transition years. Weatherford's 2017 proxy statement provides significant detail around its robust search and selection process, including the role of the special Board search committee, engagement of the executive search firm and consideration of feedback from shareholders. Weatherford also takes the opportunity to introduce its new President and CEO and present his unique qualifications for the role.





2017 Proxy Statement Corporate Governance

BOARD REVIEW OF SUCCESSION PLANNING AND TALENT DEVELOPMENT PRACTICES

April

Topic:
CEO succession planning
Primary Focus:
Internal succession alternatives in three different time periods – immediate, 3-5 years, and long-term

November

Topic:
CEO and senior leadership succession – “what if” scenario planning
Primary Focus:
Board dialogue in advance of unexpected succession issues



July

Topic:
Organizational health – how the organization recruits, develops and retains people, including its inclusive diversity commitments
Primary Focus:
Systematic approach to talent development

September

Topic:
Senior leadership succession, including CEO
Primary Focus:
Key leader development and retention

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Allstate Proxy Statement

https://allstateproxy.com/uploads/AllState_2017_AM_materials_full_report.PDF

Weatherford International Proxy Statement

<http://www.weatherfordannualmeeting.com/pdf/WeatherfordProxy2017.pdf>

EXECUTIVE COMPENSATION

Can we all agree that executive compensation disclosures should be about quality, not quantity? We are hopeful that we have reached the tipping point in terms of disclosure overload (despite new rules and interpretations not yet finalized). In 2017, we see efforts to streamline executive compensation disclosures and creating more effective ways to explain the decisions around the compensation for senior leaders.

VOICE OF THE COMPENSATION COMMITTEE

The CD&A rules require discussion of how and why executive compensation decisions are made. In 2017, we found more companies choosing to provide this explanation directly from the decision-makers themselves: the compensation committee (or equivalent). Using the committee's "voice" to directly speak to shareholders, particularly to address program changes, explain difficult decisions or respond to shareholder feedback, can be an effective tool to communicate "we get it". CVS Health utilized several of these engagement tools in its proxy statement – a letter from the compensation committee leads off the compensation disclosures and then the CD&A summary is primarily in Q&A format. Southern Company has for several years included a letter from its committee as an introduction to the CD&A. This approach provides an opportunity to present an engaged committee, carefully evaluating the need to retain and motivate its leadership team while at the same time continuing to focus on accountability for strategic objectives and creating value for shareholders.





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CVS Health Proxy Statement

<http://cvshealthannualmeeting.com/uploads/2017-Proxy-Statement.pdf>

Southern Company Proxy Statement

<https://southerncompanyannualmeeting.com/uploads/southern-company-2017-proxy.pdf>

COMPENSATION SNAPSHOT

Executive compensation programs are rarely simple, and considerations unique to each company weigh into program design, analysis and decisions. Where the CD&A discusses the *how* and *why*, we sometimes must sift through pages of disclosures to find the *what*. While we continue to support the increased use of pay mix graphics in proxy summaries, information about performance metrics often still fall to the details of CD&A. We find it refreshing – and helpful – when companies provide an all-inclusive “snapshot” of the compensation framework at the outset of the report.

Cognizant’s compensation dashboard in its 2017 proxy statement summary provides an excellent overview, summarizing the elements of the program, performance metrics by element and performance against targets in the proxy summary. Readers gain an upfront understanding of the compensation structure and the company’s transparency is well-received. BorgWarner also effectively presents a snapshot of its compensation framework featuring a pay mix graphic together with key information about each element, including applicable performance periods and metrics.





Proxy Statement Summary

2016 Compensation Structure

Base Salary

Stable source of cash income at competitive levels

Annual Cash Incentive / Cash Bonus

Annual cash incentive for Mr. D'Souza, Mr. Mehta and Ms. McLoughlin to motivate and reward achievement of Company financial and operational objectives

Weighting	Measurement Period	Target Compensation
50%	Revenue	1 year
40%	Non-GAAP Income from Operations	1 year
10%	Days Sales Outstanding (DSO)	1 year

Historical Annual Cash Incentive award achievements by year	2014	2015	2016
	96.2%	142.0%	79.8%

Cash bonus for Mr. Chintamani and Mr. Sinha based on achievement of business unit and/or overall business goals and expanded responsibilities in 2016

Performance Stock Units (PSUs)

Annual grant of performance stock units that reward achievement of Company financial objectives, continued service and long-term performance of our common stock

Weighting ¹	Measurement Period	Vesting
75%	Revenue	2 years
25%	Non-GAAP EPS	2 years

Historical PSU achievements by performance measurement period	2014 ¹	2015 ¹	2016
	86.1%	122.9%	38.2%

Weighting for 2017 awards - 50% Revenue; 50% non-GAAP EPS

Restricted Stock Units (RSUs)

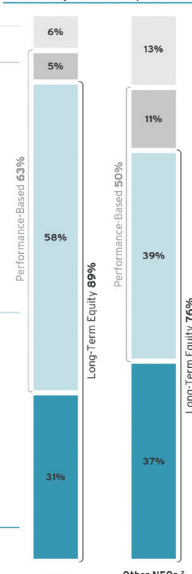
Annual grants of restricted stock units to reward continued service and long-term performance of our common stock

Vesting Quarterly over 3 years

Q4 2016 to Q1 2017 RSU grant timing change - The Company moved the timing of annual RSU grants for Mr. D'Souza, Mr. Mehta and Ms. McLoughlin from the fourth quarter of 2016 to the first quarter of 2017 to align with the timing of the Company's other annual equity grants and other annual compensation decisions by the Compensation Committee. As such, to present the intended target total direct compensation in a more meaningful manner, the RSU percentages shown for 2016 include the value of the RSU grants made to such executives in the first quarter of 2017.

¹ Weighting was 100% revenue for the 2014 and 2015 performance measurement periods.
² Excludes Mr. Coburn, who resigned from the Company during 2016.

2016 Target Annual Compensation



■ Base Salary
■ Annual Cash Incentive / Cash Bonus
■ Performance Stock Units (PSUs)
■ Restricted Stock Units (RSUs)

⁴ Cognizant Technology Solutions Corporation

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Borg Warner Proxy Statement

<https://www.borgwarner.com/docs/default-source/investors/2017-proxy-statement.pdf?sfvrsn=10>

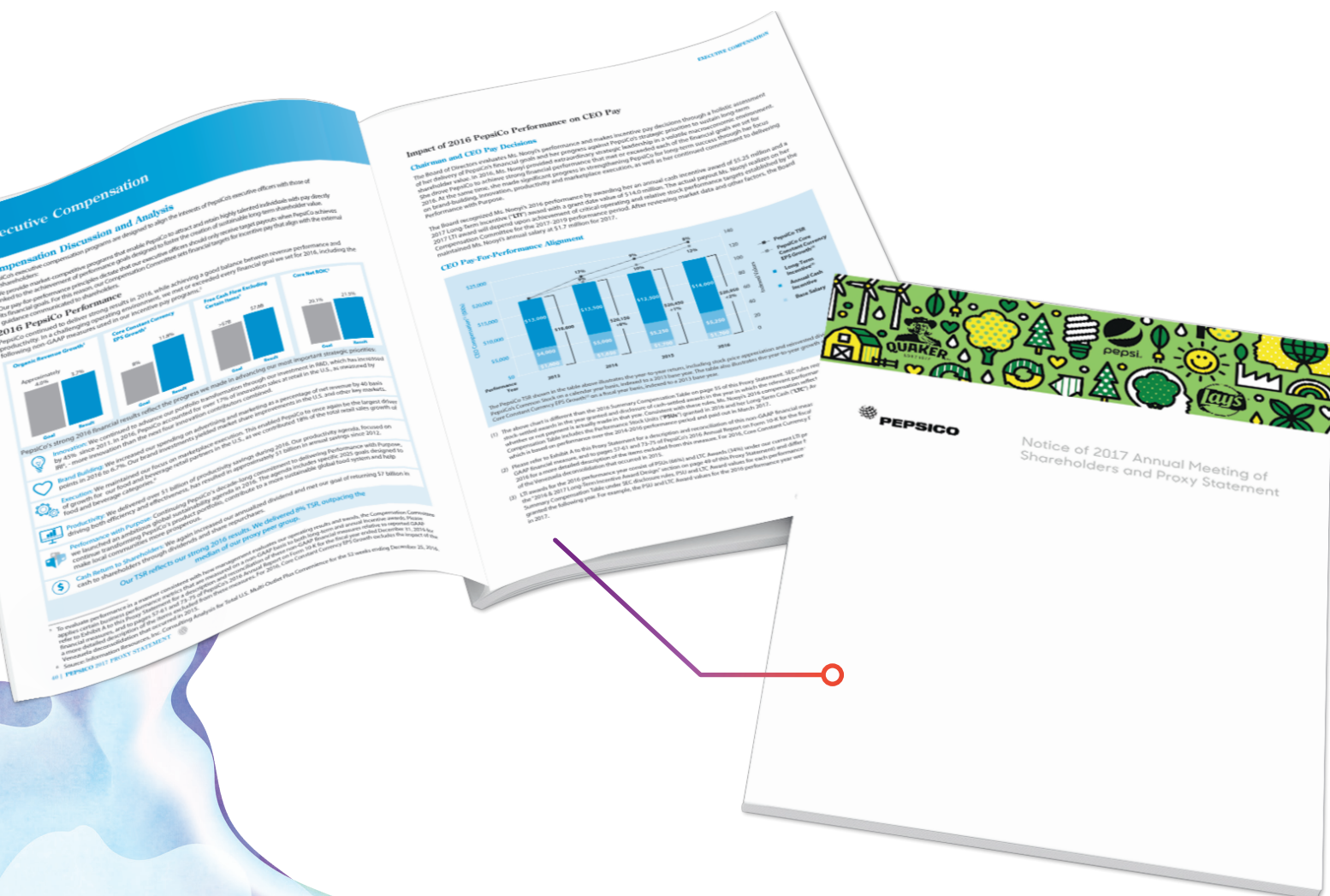
Cognizant Proxy Statement

https://www.sec.gov/Archives/edgar/data/1058290/000120677417001257/ctsh_courtesy-pdf.pdf

PAY FOR PERFORMANCE ALIGNMENT

We've consistently advocated for companies to define performance on their own terms – and explain how executive reward is linked to successes against strategic initiatives and the creation of shareholder value. Morgan Stanley's disclosures in its 2017 proxy statement do just that. In addition to charting strategic objectives and outcomes, Morgan Stanley utilized an innovative CEO compensation graphic for a side-by-side comparison of pay range/opportunity, performance factors and compensation decisions. The demonstration of pay for performance alignment illustrates both

the positive and negative inputs specific to the company's strategy and effectively highlights the key considerations contributing to the compensation committee's decisions. PepsiCo also dedicates a section of its CD&A to visually illustrate Chairman and CEO pay decisions from 2013-2016 as they relate to sustained shareholder value over the performance period. Additionally, PepsiCo notes its holistic approach to incentive pay decisions and evaluation of the Chairman and CEO's progress toward strategic priorities in addition to financial goals.

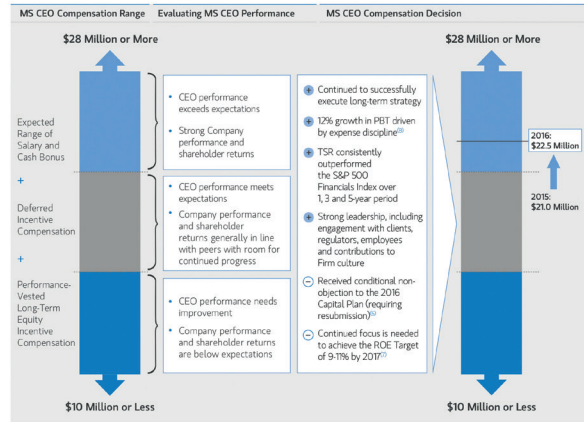


Morgan Stanley

Notice of 2017 Annual Meeting
and Proxy Statement

EXECUTIVE COMPENSATION

As a result, the CMDS Committee determined that Company and individual performance warranted a 2016 pay decision for Mr. Gorman of \$22.5 million, a 7% increase from Mr. Gorman's 2015 pay of \$21 million. The CMDS Committee believes that this decision appropriately aligns Mr. Gorman's 2016 pay with 2016 performance.



The alignment of Mr. Gorman's pay with Company performance can also be demonstrated over the longer-term by the fact that over the 2014-2016 period, Mr. Gorman's realizable pay has increased by approximately 19% and the Company's three-year TSR for the same period is 42%⁽⁴⁾.

Section 3.2 contains more details about individual NEO performance.

1.3 Compensation Elements

Pay in a given year is delivered in a combination of fixed compensation (generally, base salary), cash bonus, deferred cash, restricted stock units (RSUs), and a long-term incentive program (LTIP) award in the form of performance stock units. A significant portion of pay is deferred, awarded in equity, subject to future stock price performance and cancellation and clawback and, in the case of LTIP awards, subject to future achievement of specified financial goals over a three-year period.

Mr. Gorman's 2016 pay was delivered in a combination of these compensation elements, as outlined below. The CMDS Committee believes this approach to executive compensation is consistent with shareholder alignment, executive motivation, best practices, and regulatory principles. Sections 4.2 and 4.3 contain more detail about the elements of our compensation program.

48 Morgan Stanley 2017 Proxy Statement

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Morgan Stanley Proxy Statement

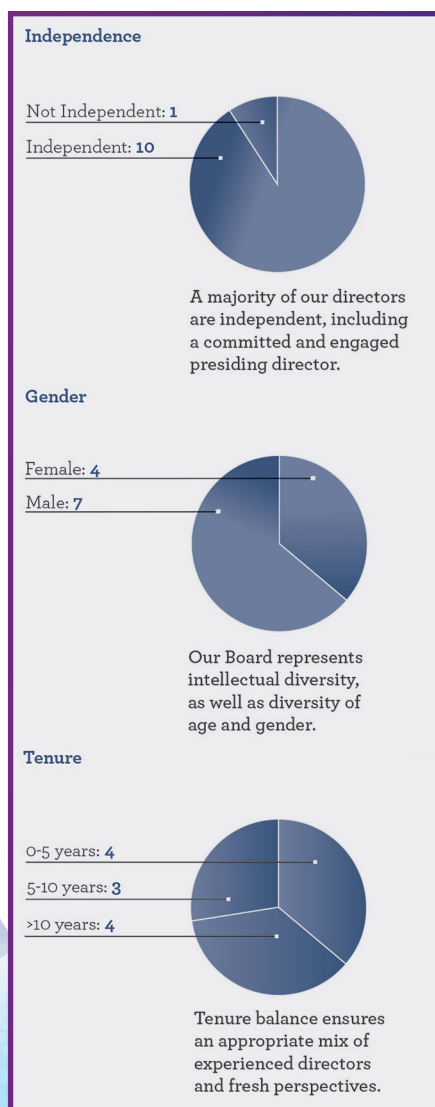
https://www.morganstanley.com/about-us-2017ams/pdf/2017_Proxy_Statement.pdf

PepsiCo Proxy Statement

<http://www.pepsico.com/docs/album/annual-reports/pepsico-inc-2017-proxy-statement.pdf?sfvrsn=0>

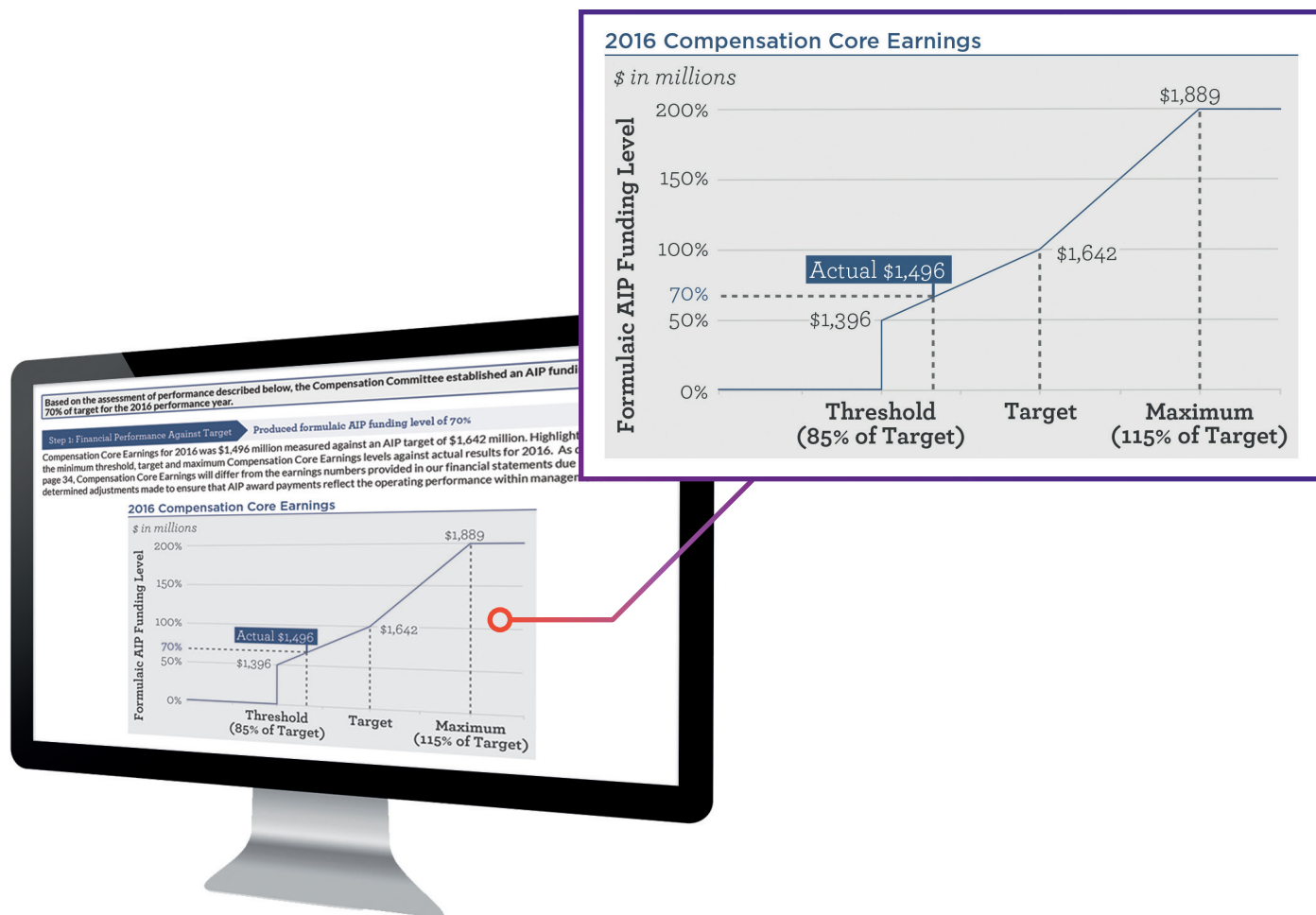
Online Platforms

Over the past several years, we have seen a migration toward complete in-house management of the reporting process. Document management and filing systems have improved in scale and security, and many companies appreciate the expediency of running changes through documents by the internal reporting team, as well as the ability to maintain version control.



CREATIVITY IN ONLINE PLATFORMS

In 2017, we saw the beginning of a hybrid approach to annual reporting. As demonstrated by The Hartford, companies can strike a balance: utilize a licensed platform such as WDesk, and also engage design, graphic and content experts to add branding continuity to the report. At Argyle, we are able to build a design framework onto programs companies are already using in-house. This allows the final printed (or filed) documents to look and feel like best-in-class productions, but still be managed internally.



SEE MORE

The Hartford Annual Report and Proxy Statement

<https://ir.thehartford.com/~media/Files/T/Thehartford-IR/documents/events/notice-of-2017-annual-meeting-of-shareholders.pdf>

About Argyle

We are a creative communications firm offering end-to-end, in-house execution capabilities.

Our experienced and passionate team is composed of attorneys, designers, project managers, thinkers and web developers. We collaborate together around a process that encompasses drafting, editing, designing and publishing across all digital and print channels.

We are thrilled that communications prepared by Argyle have contributed to trustful relationships between our clients and their readers, whether investors, employees or other stakeholders.

In turn, our commitment to our clients has resulted in meaningful long-term relationships with some of the most respected public and private companies in the world.

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