# Table of Contents

## Introduction
- 1

## Executive Summary
- 3

## Annual Incentive Award Pool Funding
- 4

### Non-Discretionary Annual Incentive Plans
- 6
  - Financial Measures
- 8
  - Non-Financial Measures
- 9
  - Performance Modifiers
- 10
  - Weighting of Measures
- 12
  - Annual and Long-Term Overlapping Measures

## Discretionary Annual Incentive Plans
- 13

## Other Annual Incentive Practices
- 14
  - Annual Incentive Payout Leverage (Maximum Payout Opportunity)
- 14
  - Actual Annual Incentive Payouts
- 15
  - Foreign Currency Adjustments

## Appendix – Companies Included in the 2016 Annual Incentive Plan Report
- 16

## Company Profile & Authors
- 19
INTRODUCTION

Overview and Methodology

This report presents information on annual incentive plan practices in place for executives at the 250 largest U.S. companies in the Standard & Poor’s 500 Index. The Top 250 companies, limited to those granting annual incentives, are selected based on market capitalization, i.e., share price multiplied by total common shares outstanding as of March 31, 2016, as reported by Standard & Poor’s Capital IQ (see Appendix for the complete list of companies). The table below profiles the industry sectors represented in the Top 250 in 2016, as defined by Standard & Poor’s Global Industry Classification Standard (“GICS”).

<table>
<thead>
<tr>
<th>Industry Sector</th>
<th>Percent of Companies</th>
<th>Annual Sales ($B)</th>
<th>Market Cap. ($B)</th>
<th>TSR(1) 1-Year</th>
<th>TSR(1) 5-Year CAGR(2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Care (39)</td>
<td>16%</td>
<td>$20.71</td>
<td>$40.50</td>
<td>3%</td>
<td>21%</td>
</tr>
<tr>
<td>Financials (35)</td>
<td>14%</td>
<td>$18.21</td>
<td>$35.42</td>
<td>7%</td>
<td>19%</td>
</tr>
<tr>
<td>Information Technology (33)</td>
<td>13%</td>
<td>$11.87</td>
<td>$48.33</td>
<td>26%</td>
<td>21%</td>
</tr>
<tr>
<td>Consumer Discretionary (31)</td>
<td>12%</td>
<td>$16.23</td>
<td>$35.55</td>
<td>6%</td>
<td>22%</td>
</tr>
<tr>
<td>Consumer Staples (29)</td>
<td>12%</td>
<td>$19.33</td>
<td>$37.78</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td>Industrials (29)</td>
<td>12%</td>
<td>$26.57</td>
<td>$38.21</td>
<td>19%</td>
<td>19%</td>
</tr>
<tr>
<td>Utilities (15)</td>
<td>6%</td>
<td>$11.33</td>
<td>$26.78</td>
<td>17%</td>
<td>12%</td>
</tr>
<tr>
<td>Energy (14)</td>
<td>6%</td>
<td>$20.02</td>
<td>$40.39</td>
<td>19%</td>
<td>8%</td>
</tr>
<tr>
<td>Real Estate (13)</td>
<td>5%</td>
<td>$3.40</td>
<td>$25.60</td>
<td>19%</td>
<td>18%</td>
</tr>
<tr>
<td>Materials (9)</td>
<td>4%</td>
<td>$13.50</td>
<td>$34.46</td>
<td>22%</td>
<td>21%</td>
</tr>
<tr>
<td>Telecommunication Services (3)</td>
<td>1%</td>
<td>$127.89</td>
<td>$211.89</td>
<td>25%</td>
<td>13%</td>
</tr>
<tr>
<td><strong>Total Top 250 - Median</strong></td>
<td></td>
<td><strong>$16.25</strong></td>
<td><strong>$36.02</strong></td>
<td><strong>16%</strong></td>
<td><strong>19%</strong></td>
</tr>
</tbody>
</table>

*Market Data is provided by S&P Capital IQ and is as of 9/30/16
**Market Data depicts median amount

(1) TSR = Total Shareholder Return, a measure of stock price and dividend performance
(2) CAGR = Compounded Annual Growth Rate
INTRODUCTION

Survey Scope

This report covers the following topics:

• Annual incentive award pool funding
• Annual incentive measure design features, including number of measures, types of measures, weighting of measures, performance modifiers and the prevalence of annual incentive measures that overlap with long-term incentive measures
• Annual incentive maximum payout opportunities
• Actual annual incentive payouts for the CEO for the latest fiscal year
• Performance measure adjustments for the impact of foreign currency fluctuations in annual incentive plans

Source of Data

All information was obtained from public documents filed with the Securities and Exchange Commission ("SEC"), including proxy statements and 8-K filings.
EXECUTIVE SUMMARY

Annual incentive plans play a key role in motivating and focusing employees on a company’s short-term goals. Key considerations for designing an annual incentive plan are selecting the appropriate performance measures and deciding how they should be weighted. Effective annual incentive measures will provide a clear line-of-sight to the overall strategy of the company and/or a participant’s impact on performance. Although there are many ways to structure annual incentive plans, some common themes in annual incentive design among the Top 250 companies are observed:

• Eighty-three percent of companies in the Top 250 use at least one specific financial measure to determine annual incentive payouts, of which 75% use two or more financial measures.

• Non-financial measures (e.g. strategic and individual performance) are also common and are used as a stand-alone measure by 52% of companies with non-discretionary plans.

• Profitability measures are not only the most prevalent annual incentive measures (utilized by 92% of companies with non-discretionary plans), but profitability measures also carry the heaviest weighting among the companies that use them (on average, comprise 59% of the weighting of annual incentive plans among those that use them).

• Among companies with heads of business units reported in their proxy statements, the dominant practice is to emphasize corporate over business unit results for these officers.

• Sixty-two percent of companies in the Top 250 provide a maximum annual incentive payout opportunity of 200% of target, with the remainder divided approximately equally above and below 200%.

Although company strategy plays a large role in shaping annual incentive plan design, external forces are also playing an increasingly important role. As proxy advisory firms and institutional investors continue to emphasize a pay-for-performance philosophy, companies face scrutiny when annual incentive payouts do not align with company performance. We see this manifested in plan design through the use of a portfolio of measures and the convergence around 200% of target as the standard maximum payout opportunity. However, despite outside pressure to transparently link pay directly to financial and/or stock price performance, over half of Top 250 companies use one or more non-financial measures in their annual incentive plans and 17% of companies maintain a plan that is determined entirely on a discretionary basis. Investors also remain focused on the rigor of performance goals in annual incentive plans, as the median actual annual incentive payout was 120% of target for the Chief Executive Officer (“CEO”) during the latest reported fiscal year (generally 2015).

Regulation has also impacted annual incentive plan design, most notably through the use of “plan-within-a-plan” funding approaches (disclosed at 42% of the Top 250 companies) as a way to comply with requirements under Internal Revenue Code (“IRC”) Section 162(m).
While annual incentive plan design can be very specific to a particular company and its culture, in many cases, regulation also influences it. A notable example of this is in the use of a “plan-within-a-plan” approach for the funding of annual incentive plan awards or pools. This approach is typically used to provide some flexibility in determining individual annual incentive award payouts while maintaining compliance with IRC Section 162(m) restrictions that would otherwise limit deductibility of compensation to certain executive officers if specific requirements are not met (in particular, if the award is non-performance based or non-formulaic).

42% of the Top 250 companies disclose that they utilize a “plan-within-a-plan” funding approach, in which the maximum incentive award or pool funding is determined first under what is often referred to as the “umbrella plan”, and then the actual award payout is determined through the Board’s or Compensation Committee’s (“Committee”) use of “negative discretion.” “Negative discretion” is often exercised by applying the company’s formulaic annual incentive plan design (30% of companies) or, the “inside plan,” but can also be based solely on the Committee’s discretion (12% of companies). It is important to note that the prevalence of a “plan-within-a-plan” approach may be understated as companies generally tend to focus their proxy statement CD&A disclosure on their operative plan that actually drives incentive award payouts.
ANNUAL INCENTIVE AWARD POOL FUNDING

The two main methods that companies use to determine the funding under an “umbrella plan” for a “plan-within-a-plan” approach are (1) a threshold/gate and (2) a formula.

- Forty-nine percent of companies that use a “plan-within-a-plan” use a threshold/gate method, in which companies set a minimum level of objective performance as the basis to fund the maximum payout level for participants. If the threshold is not met, no annual incentive awards are earned under the plan. As such, the threshold/gate is often set at a level that is substantially uncertain at the time of establishment but has a reasonable likelihood of achievement, with more challenging goals that are directly tied to the company’s financial, operational or strategic priorities set under the “inside plan”.

- Forty-five percent of companies that use a “plan-within-a-plan” use a formula mechanism, in which the maximum payout level is determined as a fixed percentage of profit, either for each individual participant (e.g., 1% of net income for each executive officer) or in total for all participants (e.g., pool equal to 5% of net income, with allocation such that the sum of all participant awards cannot exceed 100% of the pool).

- Sixteen percent of companies that use a “plan-within-a-plan” use a mechanism other than the threshold/gate or formula methods to determine annual incentive pool funding. For example, some companies use a “sliding scale,” in which the maximum payout level can range along a scale of dollar amounts based on corresponding levels of performance achievement.

- Eight percent of companies use more than one of the above methods in their “plan-within-a-plans.” For instance, a company might set a threshold level of performance that must be achieved before any incentive awards can be paid (i.e. threshold/gate method), after which a percent of profit formula is used to determine the maximum payouts (i.e. formula method).

The remainder of companies that do not disclose the use of a “plan-within-a-plan” (58%) use a “bottom-up” approach to determine annual incentive funding, that is the funding is a function of the sum of individual awards and the “inside plan” is the only operative plan for both IRC Section 162(m) and actual incentive award payout purposes. The remainder of this report focuses on the design features of the operative, “inside plans” for the Top 250 companies.
NON-DISCREETIONARY ANNUAL INCENTIVE PLANS

Financial Measures

83% of the Top 250 companies have non-discretionary annual incentive plans, all of which use one or more financial measures in their determination of payouts. The number and types of financial measures used in an annual incentive plan communicate a company’s priorities, both internally and externally. Companies look to balance measures that provide line of sight to participants and will motivate and positively influence their behavior with those that external stakeholders find appropriate and will deliver on commitments made.

Top 250 companies with non-discretionary plans typically use one to three financial measures, and 75% of companies use a portfolio of measures (two or more measures). A portfolio approach allows companies to address the concerns of multiple interested parties (e.g. participants, shareholders, proxy advisors, etc.) simultaneously and to emphasize or balance certain aspects of the company’s strategy.

### Number of Financial Measures Used

<table>
<thead>
<tr>
<th>Number of Financial Measures</th>
<th>Percent of Companies with Non-Discretionary Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>25%</td>
</tr>
<tr>
<td>2</td>
<td>33%</td>
</tr>
<tr>
<td>3</td>
<td>25%</td>
</tr>
<tr>
<td>4</td>
<td>12%</td>
</tr>
<tr>
<td>≥5</td>
<td>5%</td>
</tr>
</tbody>
</table>

*“Other Financial” measures include cost/expense management, total shareholder return and inventory turnover*
Profitability measures (e.g. EPS, net income, EBIT, EBITDA, pre-tax profit, profit margin) are the most prevalent within annual incentive plans and are found at 92% of companies with non-discretionary plans, followed next by revenue, which is found at 46% of companies. On the other hand, return measures (e.g. return on equity, return on assets, return on capital), which are often favored by investors, are less common, but are more often used in certain industries (e.g. Energy).

Financial Measure Type Prevalence

* "Other Financial" measures include cost/expense management, total shareholder return and inventory turnover
Non-Financial Measures

52% of companies with non-discretionary annual incentive plans use one or more non-financial measures as a stand-alone measure, while 33% of companies use one or more non-financial measures as a performance modifier (note that 12% of companies have both a non-financial stand-alone measure and performance modifier). Non-financial measures complement a company’s financial measures by providing the ability to emphasize and/or account for various internal and external factors that can affect company financial performance, as well as by providing the ability to differentiate among participants when determining payouts.

- Forty-two percent of companies use strategic measures in their annual incentive plans (36% as a stand-alone metric, 5% as a modifier and 1% as both). Strategic measures can focus executives on specific key areas or initiatives and are often measurable and quantifiable. They include measures related to safety, customer service, quality, and employee engagement, among others.

- Thirty-eight percent of companies include individual performance measures in their annual incentive plans, either as a stand-alone metric (18% of companies) or as a performance modifier (20% of companies), with goals or objectives defined for each individual participant.

- Twelve percent of companies allow for the Committee to subjectively increase or decrease payouts based on its judgment. Committee discretion is most often utilized as a performance modifier (11% of companies) rather than as a stand-alone measure (1% of companies).

Prevalence of Non-Financial Measures
Our research reveals that the use of non-financial measures differs by industry. Key observations include:

- Strategic measures are most prevalent in the Utilities and Energy sectors, as 80% and 77% of companies with non-discretionary plans in each of those sectors, respectively, use strategic measures to assess annual performance.
- The most common strategic measures used among the Top 250 Utility and Energy companies are measures related to safety, customer satisfaction, environmental/health and reliability.
- Over three-quarters of companies in the Real Estate sector incorporate individual measures in their annual incentive plans, versus less than 40% of companies that do so in the total sample.
- The use of discretion is most prevalent among Financials and Energy sector companies and is least prevalent among Utilities sector companies.

Performance Modifiers

36% of companies with non-discretionary annual incentive plans use some type of performance modifier, and 6% of companies use more than one measure to modify payouts. A modifier may adjust payouts up and/or down and serves as a means to provide a check on the primary metric(s) in the annual incentive plan. Some modifiers only have limited ability to influence final payouts (e.g. can increase or decrease payouts by up to 10%), while others may have the ability to reduce payouts all the way down to zero. As indicated below, annual incentive modifiers are most commonly based on non-financial measures, in particular, individual performance.
Weighting of Measures

On average, companies with non-discretionary plans allocate 82% of annual incentive plan performance to financial measures and 18% to non-financial measures. Including companies with 100% discretionary plans, the allocation is 68% to financial measures and 32% to non-financial measures or discretion, on average.

**Average Weighting: Financial vs. Non-Financial**

<table>
<thead>
<tr>
<th></th>
<th>Non-Discretionary Plans Only</th>
<th>Discretionary and Non-Discretionary Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Financial</td>
<td>18%</td>
<td>32%</td>
</tr>
<tr>
<td>Financial</td>
<td>82%</td>
<td>68%</td>
</tr>
</tbody>
</table>

Profitability measures are typically the predominant focus in annual incentive plans, as profitability is not only the most prevalent annual incentive measure, but profitability measures carry the most weighting among the companies that use them. On average, companies that use a profitability measure allocate 59% of their annual incentive target opportunity to that measure (or measures). Meanwhile, other measures typically carry less weighting (26% to 34%, on average, as indicated below).

**Average Weighting of Metrics**

<table>
<thead>
<tr>
<th>Measure Type</th>
<th>Avg. Weighting Among Companies That Use Metric</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit</td>
<td>59%</td>
</tr>
<tr>
<td>Strategic</td>
<td>34%</td>
</tr>
<tr>
<td>Revenue</td>
<td>31%</td>
</tr>
<tr>
<td>Returns</td>
<td>27%</td>
</tr>
<tr>
<td>Other Financial</td>
<td>27%</td>
</tr>
<tr>
<td>Individual</td>
<td>27%</td>
</tr>
<tr>
<td>Cash Flow</td>
<td>26%</td>
</tr>
</tbody>
</table>
Evaluating Business Unit Officer Performance

A key question faced by many companies is whether senior executives who lead a division or segment of the company should be primarily rewarded for the performance of their business unit or as a team together with their corporate colleagues. For companies that disclose business unit officers (“BUOs”) in their proxy statements (58% of companies with non-discretionary plans), the average weighting within annual incentive plans for proxy-disclosed BUOs is 79% on corporate goals and 21% on business unit/division goals. This reflects a more dominant philosophy of holding senior-most executives accountable for company-wide results to a greater degree than their business unit alone. Other key observations regarding the weighting within annual incentive plans for proxy-disclosed BUOs include:

- Sixty percent of companies with BUOs base BUO annual incentive payouts entirely on corporate performance, while only 5% of companies base BUO payouts entirely on business unit/division performance.
- Of the remaining 35% of companies who have opted to utilize a mix of corporate and business unit/division performance, corporate performance is emphasized slightly more than business unit performance, as the average mix is 54% corporate goals and 46% business unit/division goals.

![Average BUO Weighting](chart.png)
32% of companies use the same performance measure(s) in both their annual and long-term incentive plans, and 8% of companies have more than one measure that is used in both the annual and long-term incentive plans. This practice has attracted criticism from proxy advisory firms and large investment funds as it can be viewed as rewarding executives twice for the same performance and encouraging executives to inordinately focus on one or two measures. However, many companies that have continued with this practice cite the simplified message for participants and the clear vision of the company with respect to measuring the success of their performance, often over varying time frames.

Profitability measures are the most common type of measure to be duplicated between annual and long-term incentive plans, and they remain fairly prevalent as both annual (found at 92% of companies) and long-term (found at 49% of companies) measures. However, greater differentiation exists among other measures between annual and long-term incentive plans. While total shareholder return (“TSR”) continues to be the most prevalent long-term incentive measure (found at 56% of companies), only 2% of companies use TSR as an annual incentive measure. Return measures are also more often seen in long-term incentive plans (found at 40% of companies) than in annual incentive plans (found at 17% of companies).

Furthermore, while over half of the Top 250 companies use a relative measure or measures in their long-term incentive plan, only 5% of companies use a relative performance measure in their annual incentive plan, since annual goals are typically intended to motivate achievement of an annual operating plan as opposed to outperformance of other companies.
17% of companies have entirely discretionary annual incentive plans in which the Committee’s evaluation of performance determines year-end payouts from the plan. Although payouts are not formulaically tied to specific goals or targets, many of these plans consider company financial performance when determining payouts, so as to avoid disconnects between pay and performance that could draw outside criticism from proxy advisory firms, shareholders, and others. Discretionary annual incentive plans are most prevalent in the Financials sector (disclosed at 43% of companies), followed next by the Real Estate sector (disclosed at 31% of companies).
Annual Incentive Payout Leverage (Maximum Payout Opportunity)

The most prevalent maximum payout opportunity is 200% of target (found at 62% of Top 250 companies that disclosed a maximum payout in their proxy statement). Approximately half of the remaining companies have maximum payouts greater than 200% of target and approximately half have maximum payouts less than 200% of target. Similar to long-term incentive maximums, annual incentive maximums have converged around 200%, which has generally become the upper limit of acceptable practice. Without being viewed as overly excessive or as encouraging excessive risk taking, a maximum of 200% of target still provides considerable upside leverage for participants to encourage and reward high performance.

Actual Annual Incentive Payouts

Among the Top 250 companies, the median actual annual incentive payout for the CEO was 120% of target for the latest reported fiscal year (generally 2015). The highest median actual payouts by sector were found in the Utilities (146% of target) and Real Estate (143% of target) sectors, while the lowest median actual payouts were found in the Telecommunications Services (100% of target) and Financials (107% of target) sectors. Actual annual incentive payouts consistently above target at some companies call into question the rigor of performance goals, which has become a major area of focus for investors. In addition, above-target payouts in years with poor TSR performance can have negative consequences for companies in the proxy advisory firms’ pay-for-performance evaluations.

<table>
<thead>
<tr>
<th>Summary Statistics</th>
<th>CEO Actual Bonus as a % of Target Bonus</th>
</tr>
</thead>
<tbody>
<tr>
<td>75th Percentile</td>
<td>154%</td>
</tr>
<tr>
<td>Average</td>
<td>121%</td>
</tr>
<tr>
<td>Median</td>
<td>120%</td>
</tr>
<tr>
<td>25th Percentile</td>
<td>95%</td>
</tr>
</tbody>
</table>
Annual incentives are predominantly paid in cash only; however, 9% of companies require executives to receive a portion of annual incentive payouts in stock and an additional 2% of companies give executives the option of receiving a portion of payouts in stock in lieu of cash. This practice is most common in the Financials sector, as Financials companies make up approximately half of the companies in our sample that award stock in lieu of cash for annual incentive payouts. This reflects a common incentive compensation structure among Financials companies whereby annual performance determines the amount of total incentive compensation, a portion of which is deferred and paid in stock.

Foreign Currency Adjustments in Annual Incentive Plans

The use of adjusted (or non-GAAP) measures in annual incentive plans is widely prevalent, as adjustments seek to isolate performance from events that are outside of management’s control and/or involve “one-off” situations, both negative and positive. Our research focuses, in particular, on adjustments for foreign exchange rate fluctuations, which are increasingly relevant given the global nature of the current economy and the volatility in global markets.

Among the Top 250 companies, 47% of companies derive more than 33% of total revenue from outside of the United States. Of these companies, 63% use annual incentive measures that are impacted by foreign exchange rates and disclose whether they make currency adjustments, of which 62% adjust for foreign currency exchange rates and 38% do not adjust.

The measure most commonly cited as adjusted for foreign exchange rate fluctuations in annual incentive plans is revenue. Other common measures that companies listed as being adjusted for foreign exchange rate fluctuations are EPS, operating income, and cash flow.

The most common adjustment strategy among the companies that make foreign currency adjustments is to take a currency neutral approach. This approach “fixes” the exchange rate at a certain point in time and generally applies for the fiscal year (also referred to as “Constant Currency”). Other potential approaches to address currency fluctuations are to allow the impact of currency fluctuation to affect metrics within a certain range or “Collars” (“Collar” approach) or to allow for discretionary judgment to be made around any adjustments regarding currency fluctuation on either a go-forward or backward looking basis.
### APPENDIX - COMPANIES INCLUDED IN THE 2016 ANNUAL INCENTIVE PLAN REPORT

#### Consumer Discretionary (31 Companies)

AutoZone Inc.  
Carnival Corp.  
CBS Corp.  
Comcast Corp.  
Delphi Automotive PLC  
Dollar General Corp.  
Dollar Tree Inc.  
Ford Motor Co.  
General Motors Co.  
Home Depot Inc.  
L Brands Inc.  
Lowe's Companies Inc.  
Marriott International Inc.  
McDonald’s Corp.  
Netflix Inc.  
NIKE Inc.  
Omnicom Group Inc.  
O’Reilly Automotive Inc.  
Priceline Group Inc.  
Ross Stores Inc.  
Royal Caribbean Cruises Ltd.  
Starbucks Corp.  
Target Corp.  
Time Warner Cable Inc.  
Time Warner Inc.  
TXJ Companies Inc.  
Twenty-First Century Fox Inc.  
Under Armour Inc.  
V.F. Corp.  
Walt Disney Co.  
Yum! Brands Inc.

#### Consumer Staples (29 Companies)

Altria Group Inc.  
Archer-Daniels-Midland Co.  
Brown-Forman Corp.  
Campbell Soup Co.  
Coca-Cola Co.  
Colgate-Palmolive Co.  
ConAgra Foods Inc.  
Constellation Brands Inc.  
Costco Wholesale Corp.  
CVS Health Corp.  
Estée Lauder Companies Inc.  
General Mills Inc.  
Hershey Co.  
Hormel Foods Corp.  
Kellogg Co.  
Kimberly-Clark Corp.  
Kraft Heinz Co.  
Kroger Co.  
Molson Coors Brewing Co.  
Mondelez International Inc.  
Monster Beverage Corp.  
Pepsico Inc.  
Philip Morris International Inc.  
Procter & Gamble Co.  
Reynolds American Inc.  
Sysco Corp.  
Tyson Foods Inc.  
Walgreens Boots Alliance Inc.  
Wal-Mart Stores Inc.

#### Energy (14 Companies)

Anadarko Petroleum Corp.  
Apache Corp.  
Chevron Corp.  
ConocoPhillips  
EOG Resources Inc.  
Exxon Mobil Corp.  
Halliburton Co.  
Marathon Petroleum Corp.  
Occidental Petroleum Corp.  
Phillips 66  
Pioneer Natural Resources Co.  
Schlumberger Ltd.  
Spectra Energy Corp.  
Valero Energy Corp.

#### Financials (35 Companies)

Aflac Inc.  
Allstate Corp.  
American Express Co.  
American International Group Inc.  
Aon PLC  
Bank of America Corp.  
Bank of New York Mellon Corp.  
BB&T Corp.  
BlackRock Inc.  
Capital One Financial Corp.  
Charles Schwab Corp.  
Chubb Ltd.  
Citigroup Inc.  
CME Group Inc.  
Discover Financial Services  
Franklin Resources Inc.  
Goldman Sachs Group Inc.  
Hartford Financial Services Group Inc.  
Intercontinental Exchange Inc.  
JPMorgan Chase & Co.  
Marsh & McLennan Companies Inc.  
MetLife Inc.  
Moody’s Corp.  
Morgan Stanley  
PNC Financial Services Group Inc.  
Progressive Corp.  
Prudential Financial Inc.  
S&P Global Inc.  
State Street Corp.  
SunTrust Banks Inc.  
Synchrony Financial  
T. Rowe Price Group Inc.  
Travelers Companies Inc.  
U.S. Bancorp  
Wells Fargo & Co.
## APPENDIX – COMPANIES INCLUDED IN THE 2016 ANNUAL INCENTIVE PLAN REPORT

### Healthcare (39 Companies)
- Abbott Laboratories
- AbbVie Inc.
- Aetna Inc.
- Alexion Pharmaceuticals Inc.
- Allergan PLC
- AmerisourceBergen Corp.
- Amgen Inc.
- Anthem Inc.
- Becton, Dickinson & Co.
- Biogen Inc.
- Boston Scientific Corp.
- Bristol-Myers Squibb Co.
- Cardinal Health Inc.
- Celgene Corp.
- Cerner Corp.
- Cigna Corp.
- Danaher Corp.
- Edwards Lifesciences Corp.
- Eli Lilly & Co.
- Express Scripts Holding Co.
- Gilead Sciences Inc.
- HCA Holdings Inc.
- Humana Inc.
- Illumina Inc.
- Intuitive Surgical Inc.
- Johnson & Johnson
- McKesson Corp.
- Medtronic PLC
- Merck & Co. Inc.
- Mylan N.V.
- Perrigo Co. PLC
- Pfizer Inc.
- Regeneron Pharmaceuticals Inc.
- Stryker Corp.
- Thermo Fisher Scientific Inc.
- UnitedHealth Group Inc.
- Vertex Pharmaceuticals Inc.
- Zimmer Biomet Holdings Inc.
- Zoetis Inc.

### Industrials (29 Companies)
- 3M Co.
- American Airlines Group Inc.
- Boeing Co.
- Caterpillar Inc.
- CSX Corp.
- Cummins Inc.
- Deere & Co.
- Delta Air Lines Inc.
- Eaton Corp. PLC
- Emerson Electric Co.
- FedEx Corp.
- General Dynamics Corp.
- General Electric Co.
- Honeywell International Inc.
- Illinois Tool Works Inc.
- Johnson Controls Inc.
- Lockheed Martin Corp.
- Nielsen Holdings PLC
- Norfolk Southern Corp.
- Northrop Grumman Corp.
- PACCAR Inc.
- Raytheon Co.
- Roper Technologies Inc.
- Southwest Airlines Co.
- Union Pacific Corp.
- United Continental Holdings Inc.
- United Parcel Service Inc.
- United Technologies Corp.
- Waste Management Inc.

### Information Technology (33 Companies)
- Accenture PLC
- Adobe Systems Inc.
- Analog Devices Inc.
- Apple Inc.
- Applied Materials Inc.
- Automatic Data Processing Inc.
- Broadcom Ltd.
- Cisco Systems Inc.
- Cognizant Technology Solutions Corp.
- Corning Inc.
- eBay Inc.
- Electronic Arts Inc.
- EMC Corp.
- Facebook Inc.
- Fidelity National Info. Services Inc.
- Fiserv Inc.
- Hewlett Packard Enterprise Co.
- HP Inc.
- Intel Corp.
- Intl. Business Machines Corp.
- Intuit Inc.
- MasterCard Inc.
- Microsoft Corp.
- NVIDIA Corp.
- Oracle Corp.
- Paychex Inc.
- PayPal Holdings Inc.
- QUALCOMM Inc.
- salesforce.com inc.
- TE Connectivity Ltd.
- Texas Instruments Inc.
- Visa Inc.
- Yahoo! Inc.

### Materials (9 Companies)
- Air Products & Chemicals Inc.
- Dow Chemical Co.
- E. I. du Pont de Nemours & Co.
- Ecolab Inc.
- LyondellBasell Industries N.V.
- Monsanto Co.
- PPG Industries Inc.
- Praxair Inc.
- Sherwin-Williams Co.
# APPENDIX - COMPANIES INCLUDED IN THE 2016 ANNUAL INCENTIVE PLAN REPORT

## Real Estate (13 Companies)

- American Tower Corp.
- Avalonbay Communities Inc.
- Boston Properties Inc.
- Crown Castle International Corp.
- Equinix Inc.
- Equity Residential
- General Growth Properties Inc.
- Prologis Inc.
- Public Storage
- Simon Property Group Inc.
- Ventas Inc.
- Welltower Inc.
- Weyerhaeuser Co.

## Telecommunication Services (3 Companies)

- AT&T Inc.
- Level 3 Communications Inc.
- Verizon Communications Inc.

## Utilities (15 Companies)

- American Electric Power Co. Inc.
- Consolidated Edison Inc.
- Dominion Resources Inc.
- Duke Energy Corp.
- Edison International
- Eversource Energy
- Exelon Corp.
- NextEra Energy Inc.
- PG&E Corp.
- PPL Corp.
- Public Service Enterprise Group Inc.
- Sempra Energy
- Southern Co.
- WEC Energy Group Inc.
- Xcel Energy Inc.
FW Cook is an independent consulting firm specializing in executive and director compensation and related corporate governance matters. Formed in 1973, our firm has served more than 3,000 organizations in a wide variety of industries from our offices in New York, Chicago, Los Angeles, San Francisco, Atlanta, Houston and Boston. We currently serve as the independent advisor to the compensation committees at a substantial number of the most prominent companies in the U.S.

Our office locations:

**New York**
685 Third Avenue
28th Floor
New York, NY 10017
212-986-6330

**Chicago**
190 LaSalle Street
Suite 2120
Chicago, IL 60603
312-332-0910

**Los Angeles**
11100 Santa Monica Blvd.
Suite 300
Los Angeles, CA 90025
310-277-5070

**San Francisco**
135 Main Street
Suite 1750
San Francisco, CA 94105
415-659-0201

**Atlanta**
One Securities Centre
3490 Piedmont Road NE
Suite 550
Atlanta, GA 30305
404-439-1001

**Houston**
Two Allen Center
1200 Smith Street
Suite 1100
Houston, TX 77002
713-427-8300

**Boston**
34 Washington Street
Suite 230
Wellesley Hills, MA 02481
781-591-3400

Web Site: www.fwcook.com

**Authors**

This report was authored by Shannon Disbrow and James Garriga. Kathryn Neel and other FW Cook consultants also assisted with this report. Questions and comments should be directed to Ms. Disbrow in our Chicago office at sdisbrow@fwcook.com or (312) 894-0078.