

ClearBridge 200

Long-Term Incentive Plan Report October 2023



ClearBridge
Compensation Group

www.clearbridgecomp.com

Introduction

Overview

This report analyzes the design of long-term incentive (“LTI”) plans for each of the *ClearBridge 200* companies.

Long-term incentives are compensation vehicles that operate over an extended timeframe (typically greater than one year). Long-term incentives are designed to achieve multiple objectives, such as aligning executives with shareholders, motivating executives to focus on achieving long-term performance goals, and retaining executives over a multi-year period.

The design features of each incentive award were reviewed based on proxy statement disclosure for each of the *ClearBridge 200* companies; 2020 and 2023 refer to proxy statements filed in 2020 and 2023, respectively.

Contents of Report

ClearBridge 200 company practices summarized in this report include:

- LTI Vehicles
- Time-Vested Award Vesting Period & Schedule
- Performance-Vested Award Design
- Relative TSR Goal Setting

The *ClearBridge 200* Companies

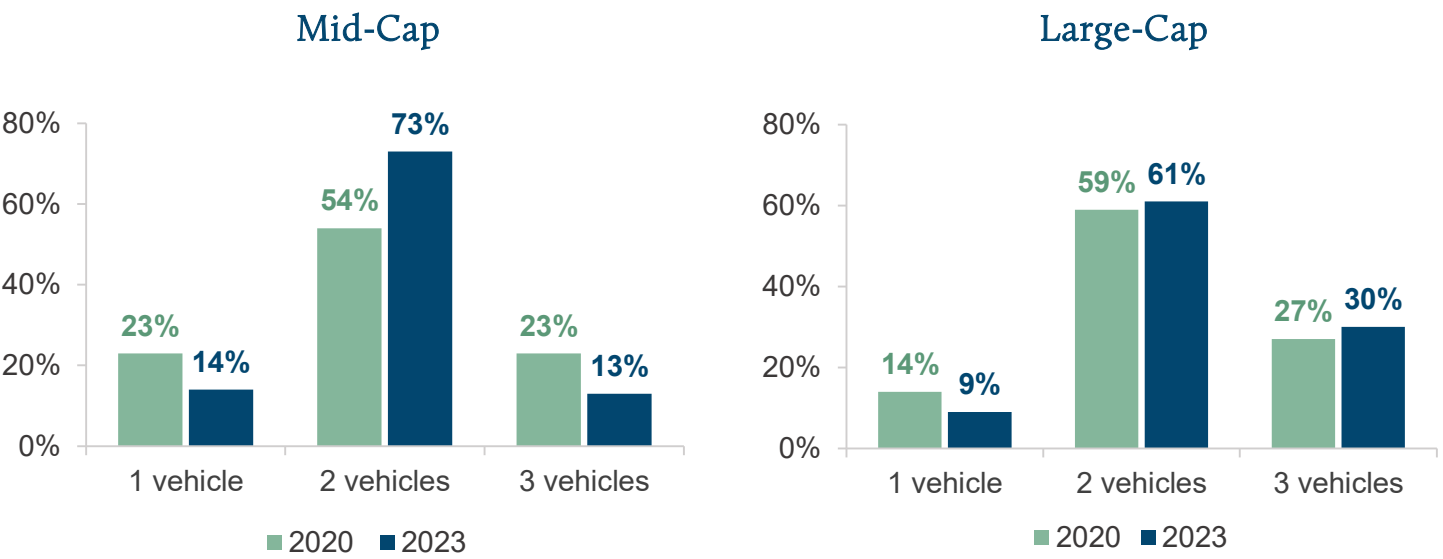
The *ClearBridge 200* consists of 100 companies in the S&P MidCap 400® Index and 100 companies in the S&P 500® Index in order to provide a representation of the U.S. market.

Further detail on the *ClearBridge 200* companies and methodology for this report can be found in the Appendix.

LTI Vehicles

Number of Vehicles

In both 2020 and 2023, the most prevalent practice was to award named executive officers (“NEOs”) two LTI vehicles, with restricted stock (“RS”)/restricted stock units (“RSUs”) and performance shares (“PS”)/performance share units (“PSUs”) being the most common vehicle combination for companies in both years. Overall, there was an increase in the use of two or more vehicles; in particular, there was a significant increase in the use of two vehicles among mid-cap companies.



Why Multiple Vehicles? Multi-vehicle LTI programs allow companies to both (i) incentivize management to achieve performance objectives (primarily through performance-vested vehicles) and (ii) attract and retain key talent (typically through time-vested vehicles).

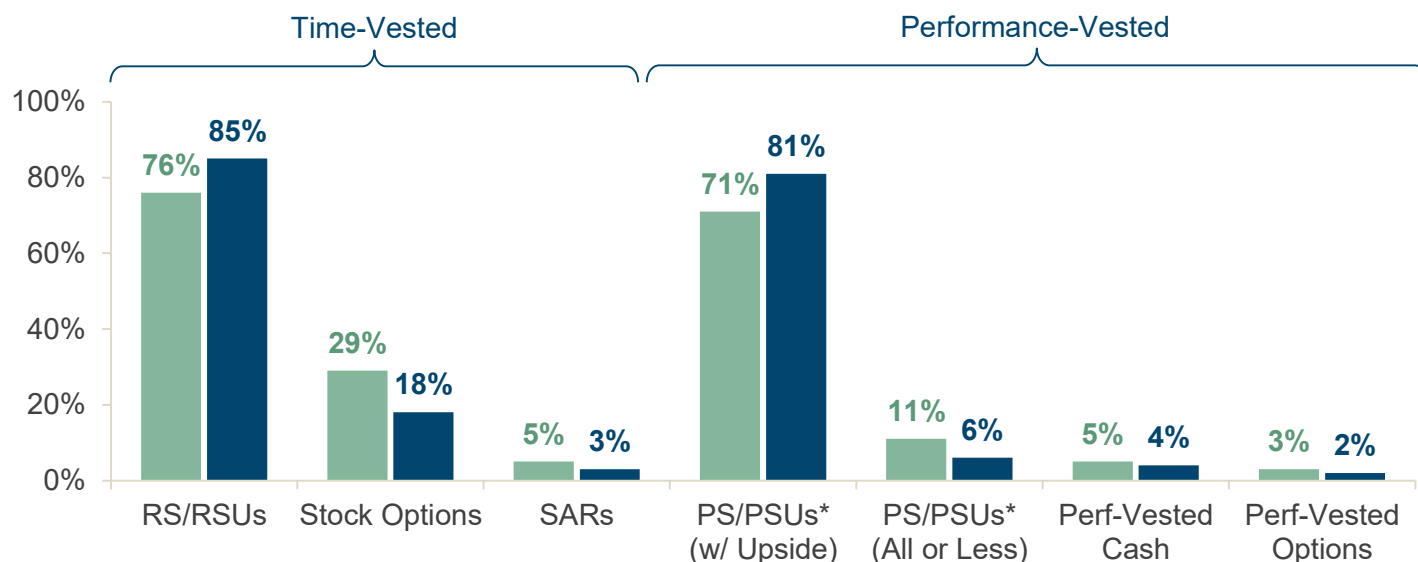
LTI Vehicles

Type of Vehicles

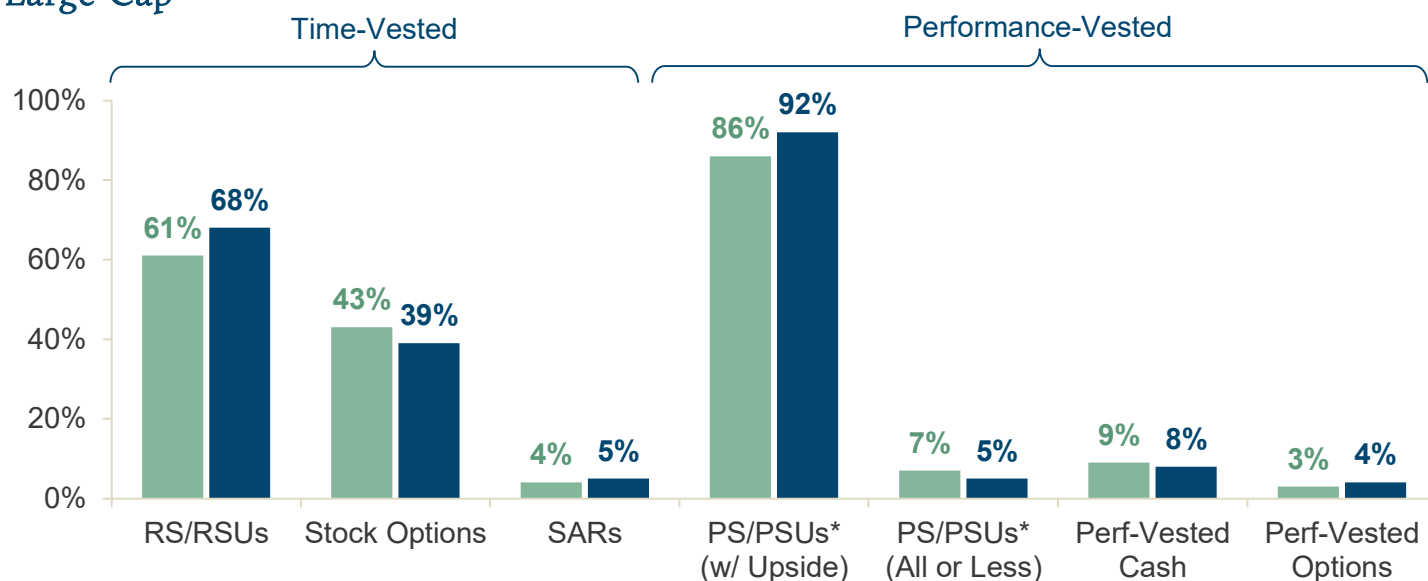
RS/RSUs and PS/PSUs remain the most common LTI vehicles, and are continuing to increase in prevalence, while stock options continue to decrease in prevalence.

Mid-Cap

■ 2020 ■ 2023



Large-Cap



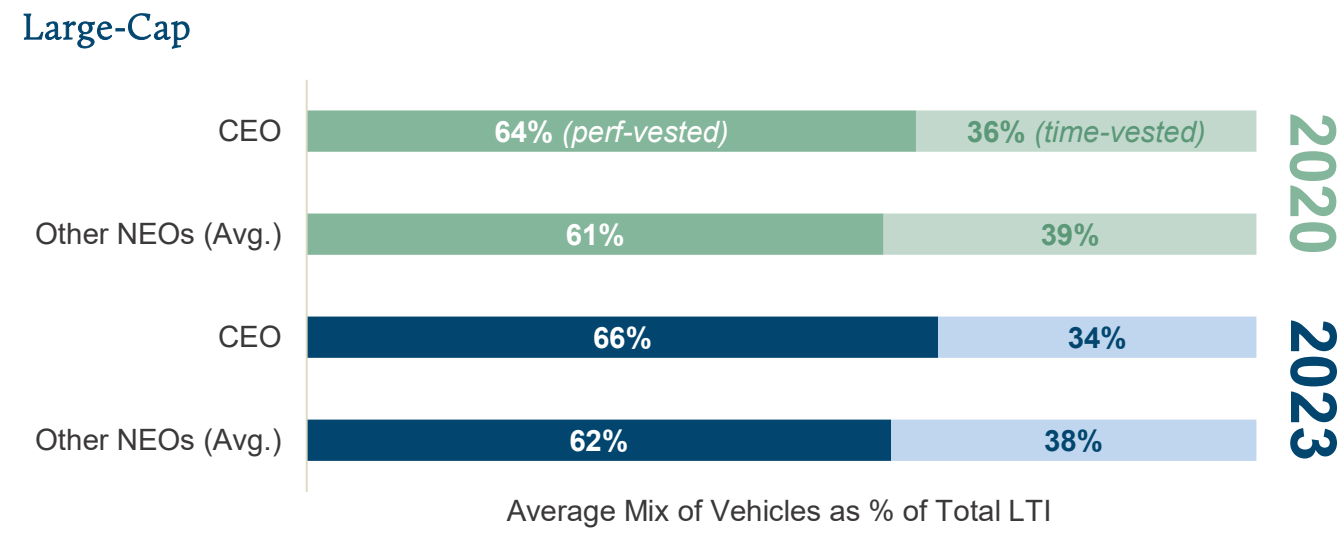
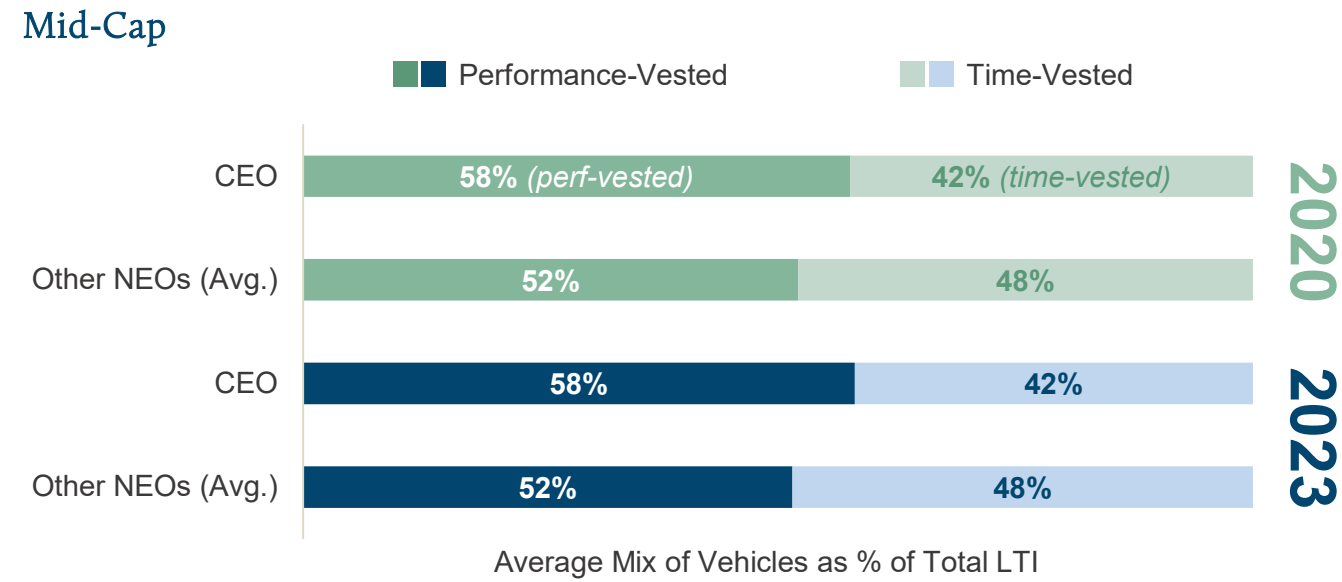
* PS/PSUs (w/ Upside) have a target number of shares/units with potential to earn more or less based on performance against goals; PS/PSUs (All-or-Less) can be earned in full, or a lesser amount, based on performance against goals.

While the use of stock options has been declining across the broad market, ~60% of healthcare companies used stock options in their LTI plan in 2023 – the only industry with >50% prevalence.

LTI Vehicles

Average Vehicle Mix

On average, the majority of LTI awards to NEOs in both 2020 and 2023 were performance-vested.



The average weight of performance-vested awards is approximately 5% to 10% higher at large-cap companies than at mid-cap companies, reflecting a transition towards performance-vested incentives as companies mature and grow.

Did You Know? While fair-market-value stock options are not considered performance-based by Institutional Shareholder Services (“ISS”), premium-priced options generally will be considered performance-based if the exercise price is $\geq 110\%$ of the grant date stock price (per current ISS policy).


LTI Vesting Period & Schedule

Time-vested LTI vehicles can be critical tools to support the attraction and retention of key executives. This section reviews vesting periods and schedules for companies that grant time-vested vehicles.

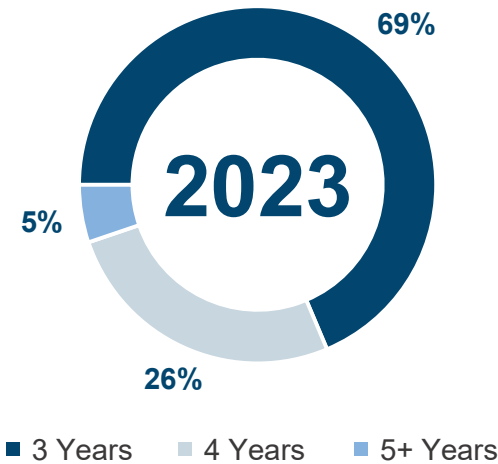
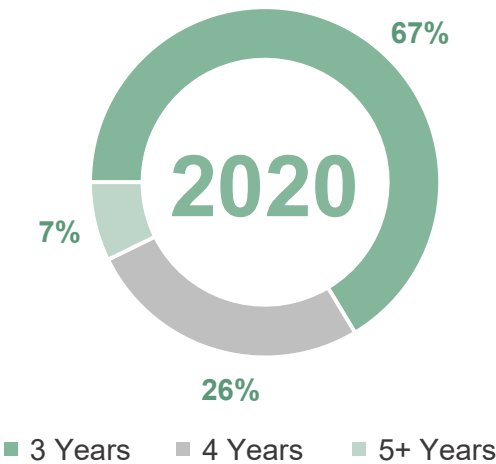
Restricted Stock/Restricted Stock Units

Vesting Period

For both mid-cap and large-cap companies, the most prevalent vesting period for time-vested RS/RSUs continues to be three years.

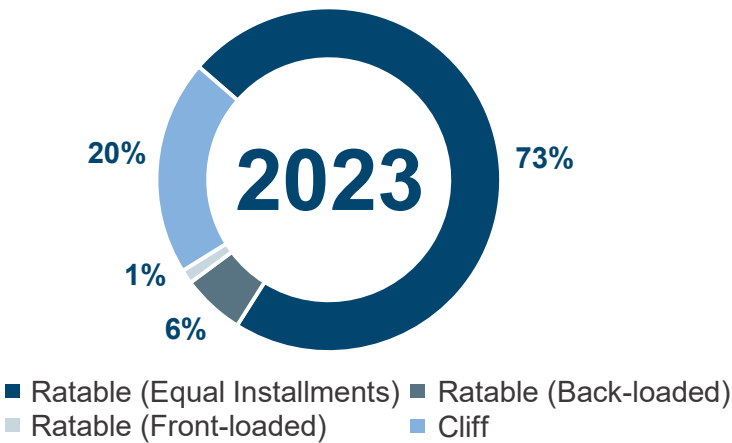
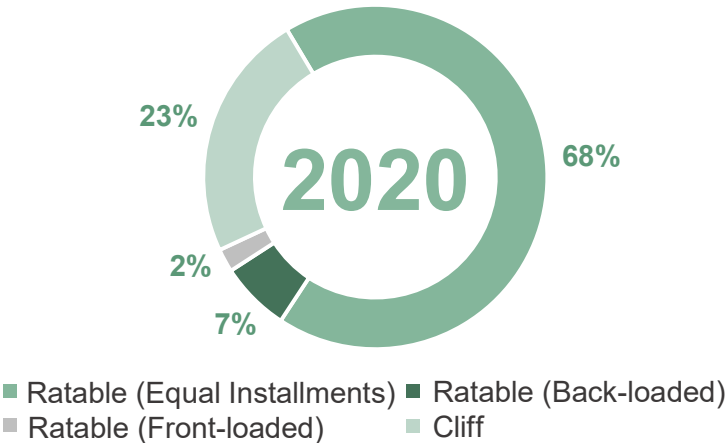


Industry Focus: In the real estate and healthcare sectors, at least 50% of companies granting RS/RSUs use a 4-year vesting period.



Vesting Schedule

Ratable vesting in equal installments (i.e., equal portions of the award vesting intermittently over time) was the most prevalent vesting schedule for time-vested RS/RSUs in both 2020 and 2023, and it continues to increase in prevalence.



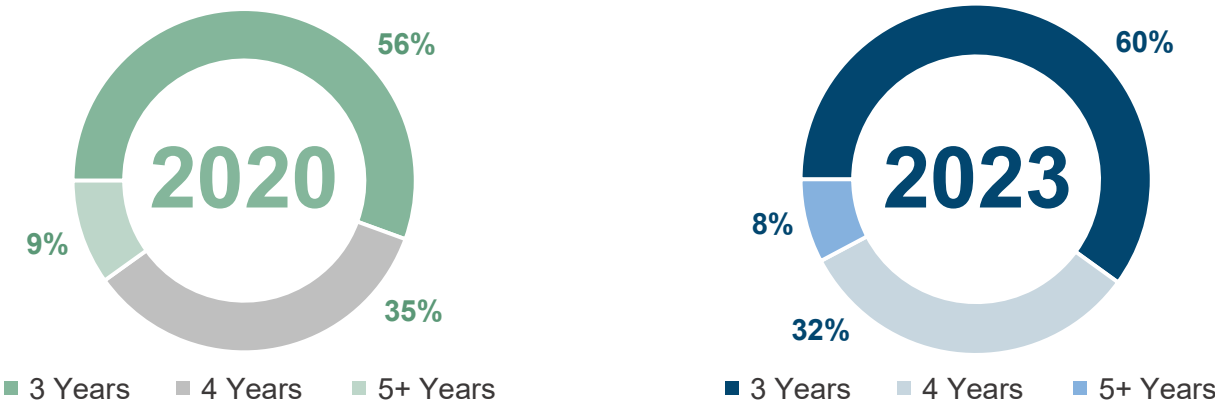
Non-equal ratable vesting schedules continue to be a minority practice (9% in 2020; 7% in 2023) and are more typical for one-off situations or special LTI awards (e.g., targeted retention awards).

LTI Vesting Period & Schedule

Stock Options/Stock Appreciation Rights (“SARs”)

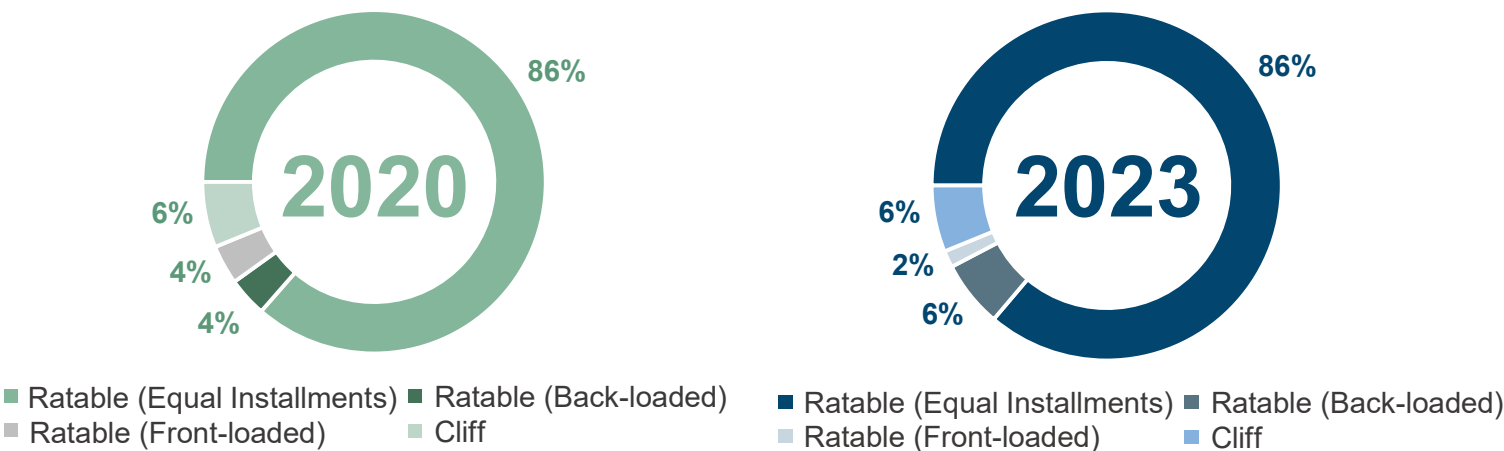
Vesting Period

For both mid-cap and large-cap companies, the most prevalent vesting period for stock options/SARs continues to be three years.



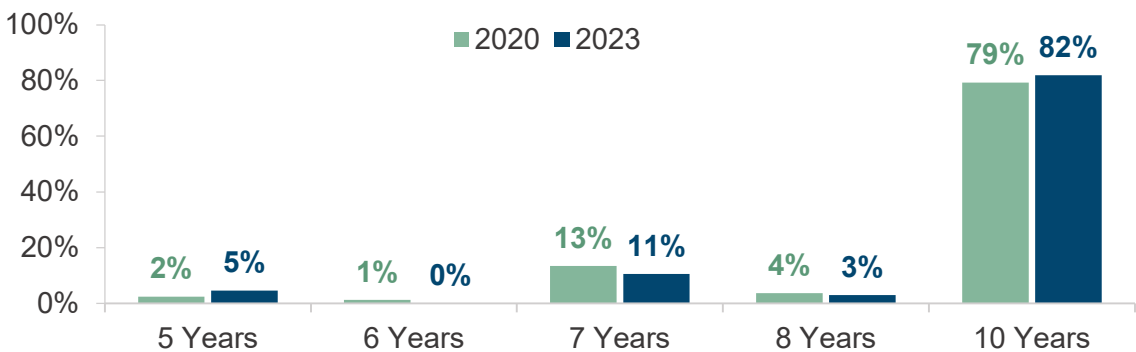
Vesting Schedule

In both 2020 and 2023, a significant majority of time-vested stock options/SARs had a ratable vesting schedule in equal installments.



Terms

In both 2020 and 2023, most companies granted stock options with 10-year terms.



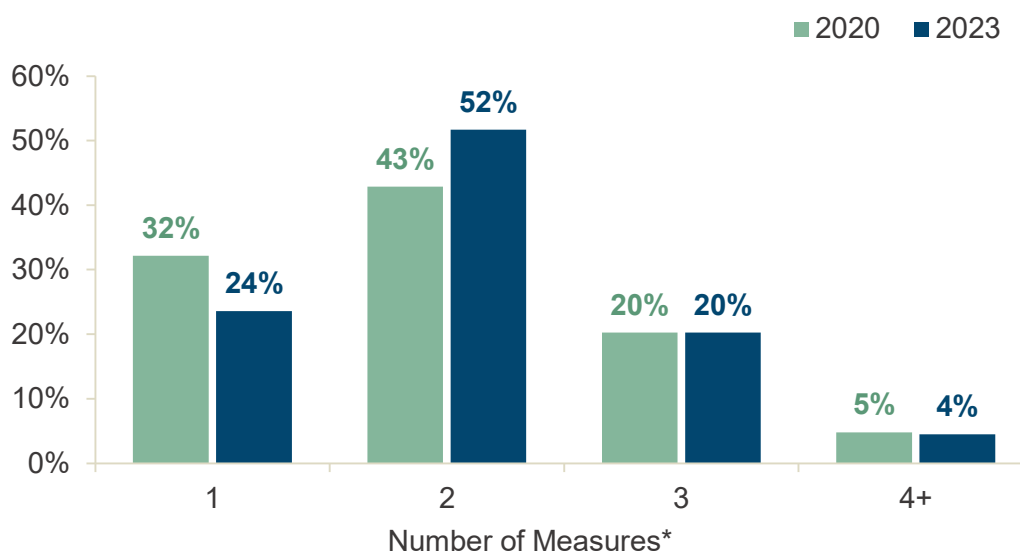
LTI Performance Measurement

Performance-vested LTI awards are used to motivate key executives and align their interests with long-term company performance. This section examines the various elements of design among companies that grant performance-vested LTI awards.

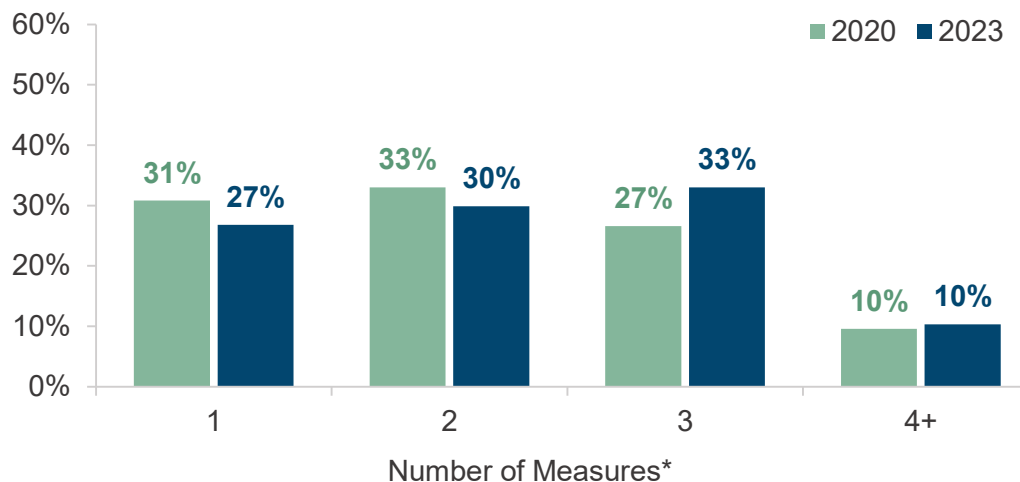
Number of Performance Measures

Companies most commonly use at least two performance measures, with the use of three measures more common among large-cap companies.

Mid-Cap



Large-Cap



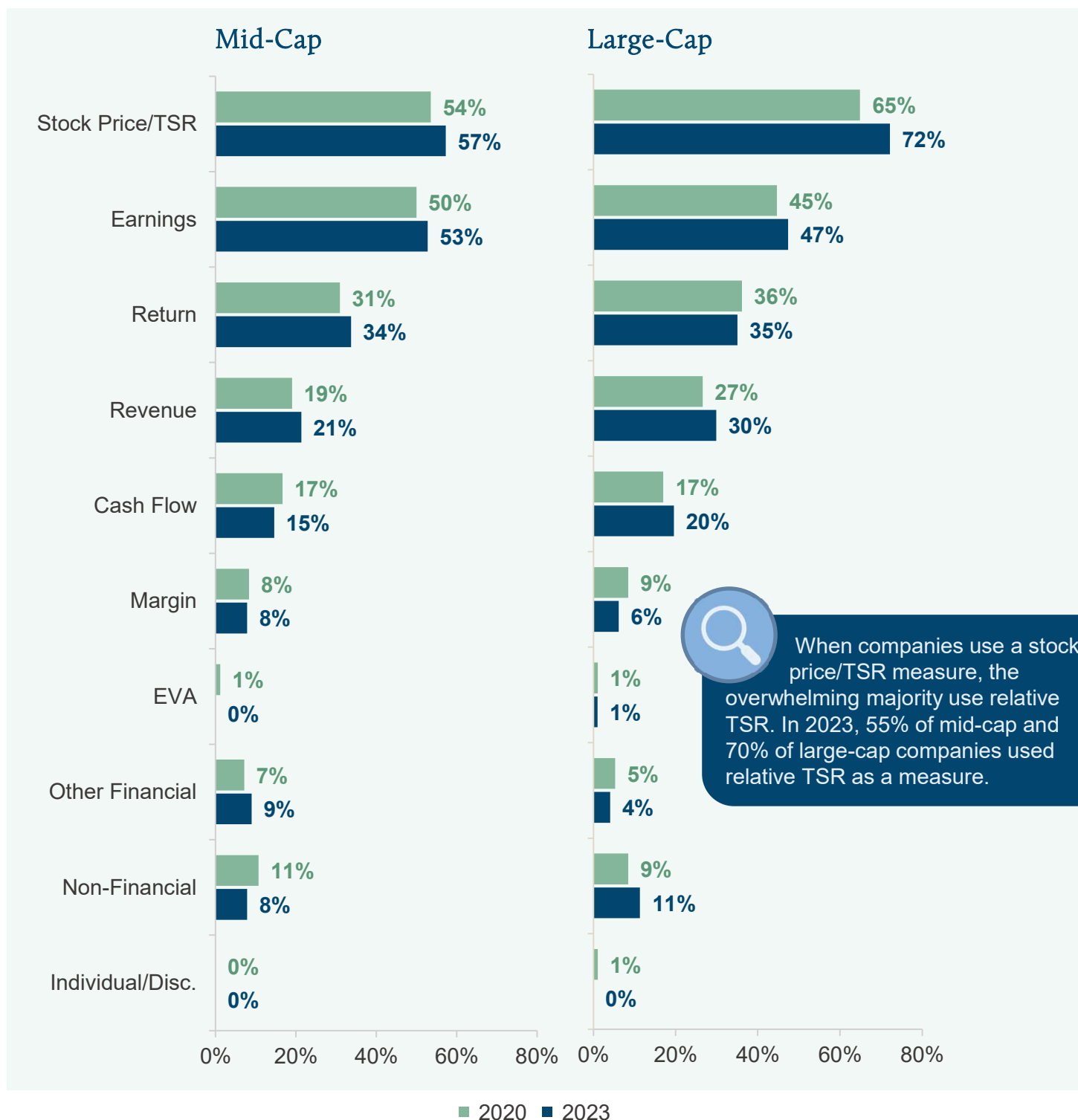
Did You Know? Almost 40% of large-cap companies that grant performance-vested LTI use a modifier. When excluding modifiers (i.e., including weighted metrics only), 42% of large-cap companies use two measures.

* Includes weighted metrics and those used in modifiers

LTI Performance Measurement

Type of Performance Measures

Across both mid-cap and large-cap companies, stock price/TSR measures, followed by earnings measures (e.g., EBITDA), are most commonly used to measure long-term performance (either as a weighted measure or as a modifier). In addition to increasing shareholder alignment, stock price/TSR goals are generally easier to establish in uncertain times compared to financial goals.



LTI Performance Measurement

Absolute vs. Relative Performance Measurement

Since 2020, companies are increasingly using a combination of absolute and relative performance measures, as opposed to solely absolute or relative measures.

Mid-Cap

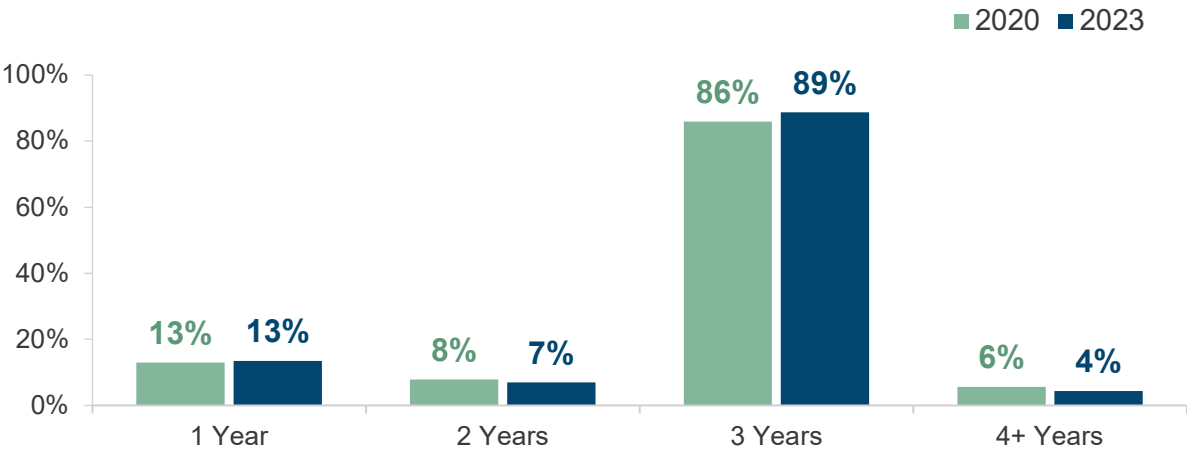


Large-Cap



Performance Period

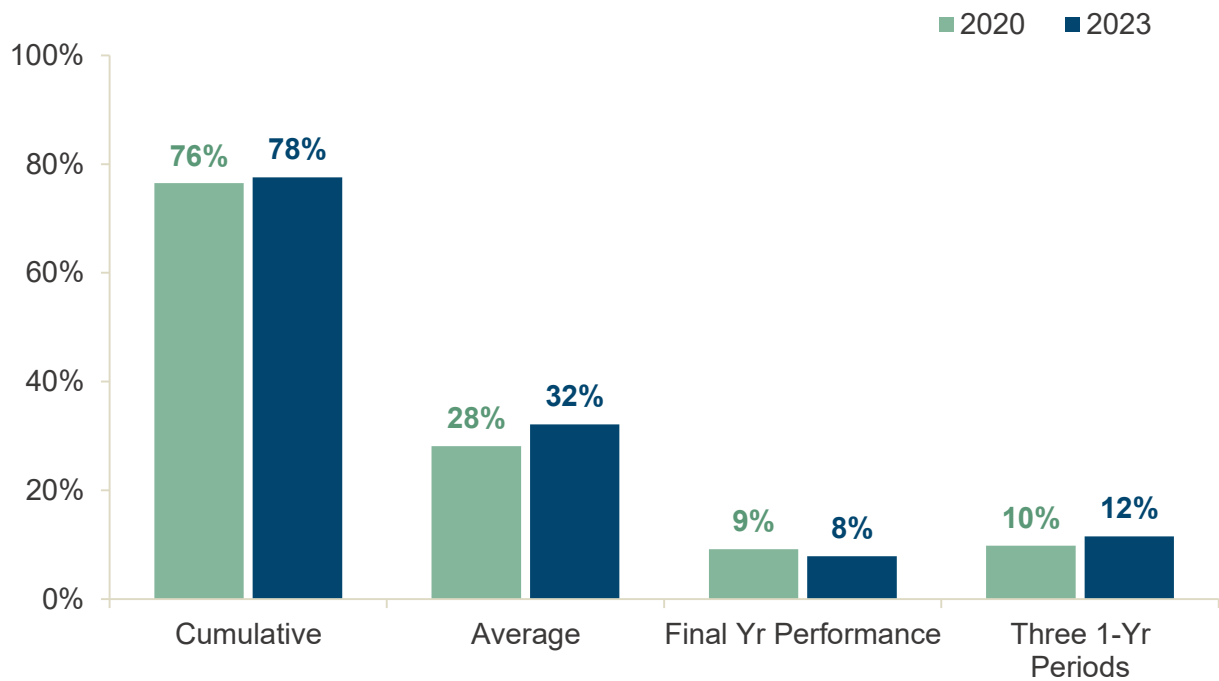
The majority of companies opt for a 3-year performance period. For awards with performance periods of less than three years, most companies extend the vesting period for one or more years after the performance period ends to maintain long-term alignment.



LTI Performance Measurement

3-Year Performance Measurement Approach

In both 2020 and 2023, the majority of companies that granted 3-year performance awards measured performance on a cumulative basis. Between 2020 and 2023, the number of companies using more than one measurement approach (e.g., for different performance measures) increased.



When companies face challenges in setting long-term goals (e.g., in a volatile market environment, projecting a high growth business), a potential approach to consider while still maintaining a 3-year performance period is to set three 1-year performance periods (in 2023, 12% of companies took this approach).

Recognizing the accounting/disclosure implications of this approach (given awards only have an official grant date once goals are set), another approach companies consider is to instead set a 1-year performance period with additional years of vesting (10% of companies in 2023).

LTI Performance Modifiers

Modifiers are performance measures in LTI plans utilized to modify or cap award payouts as a result of performance over the respective performance period, as opposed to a weighted measure.

Total Shareholder Return Modifiers

As part of the upward trend in the use of stock price/TSR as a long-term performance measure, there has been an upward trend in using stock price/TSR as a modifier to performance-vested LTI payouts.

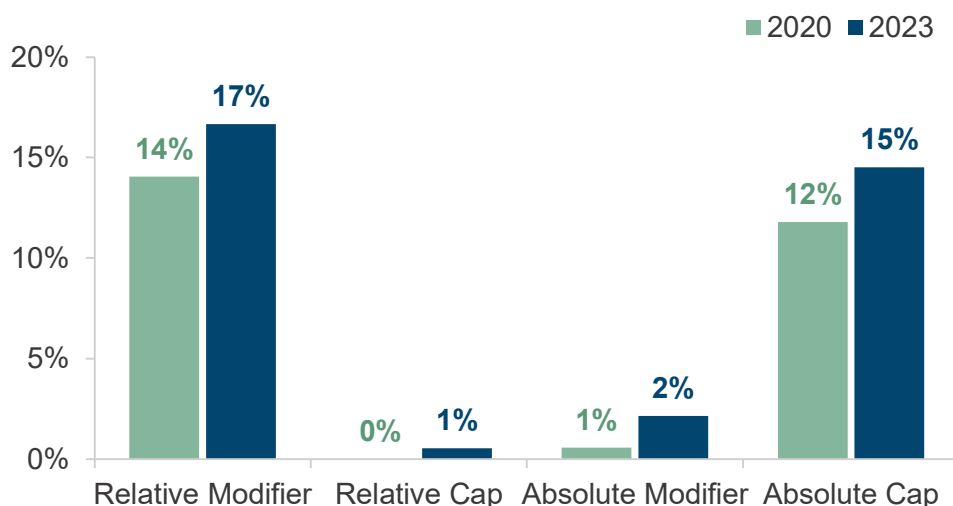
Of the companies that granted performance-vested LTI awards, 27% of companies in 2020 and 34% in 2023 utilized one of the following types of modifiers:

- **Relative TSR Modifier:** Modifies (up or down) the payout of a performance award by comparing the company's stock price/TSR over the respective performance period against a comparator group (e.g., industry index)
- **Relative TSR Cap:** Limits the payout of a performance award by establishing a payout cap if certain relative stock price/TSR goals are not achieved (e.g., payout of a performance award is capped at target if the company's stock price/TSR is below the 25th percentile of a comparator group over the performance period)
- **Absolute TSR Modifier:** Modifies (up or down) the payout of a performance award by comparing the company's stock price/TSR over the respective performance period against pre-established absolute stock price/TSR goals
- **Absolute TSR Cap:** Limits the payout of a performance award by establishing a payout cap if certain absolute TSR goals are not achieved (e.g., payout of a performance award is capped at target if the company's TSR is negative over the course of the performance period)

The most common approach for TSR modifiers is to adjust initial payouts by up to **± 25%**.

A relative TSR modifier is the most prevalent type of TSR modifier, followed by an absolute TSR cap.

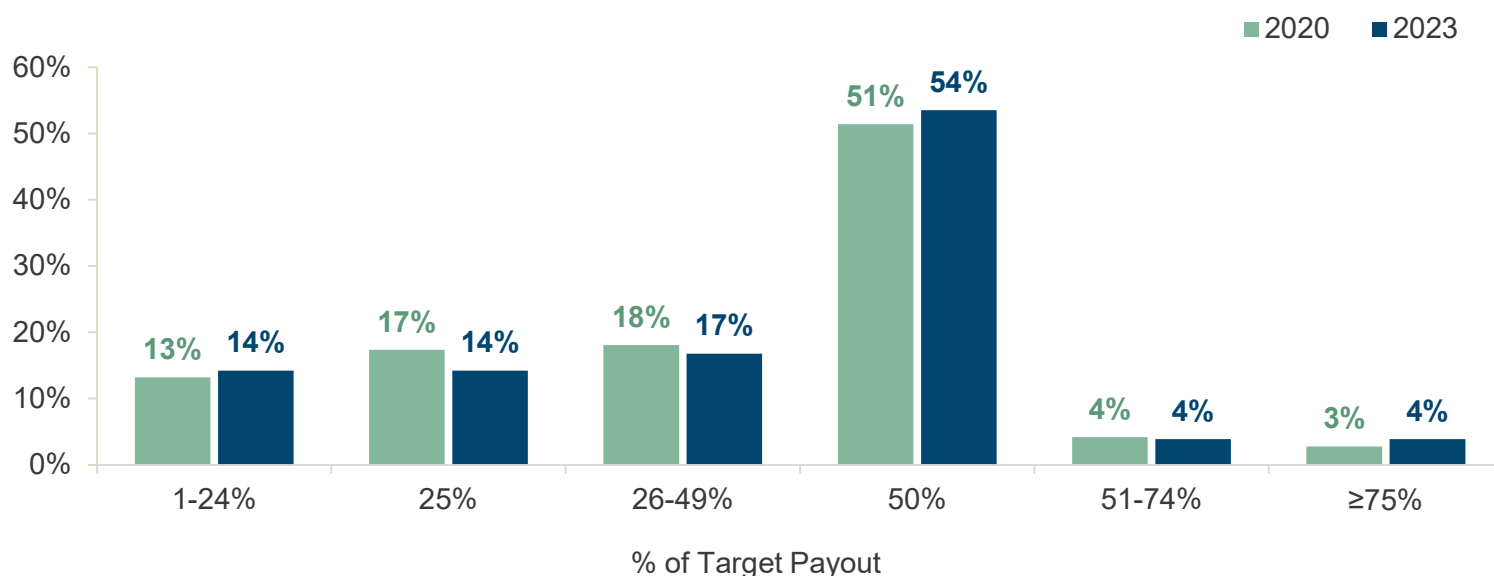
While TSR performance modifiers are the most prevalent performance modifier, a small minority (4% of companies) modify performance awards based on a financial measure (return measures are most common, e.g., ROIC).



LTI Payout Leverage

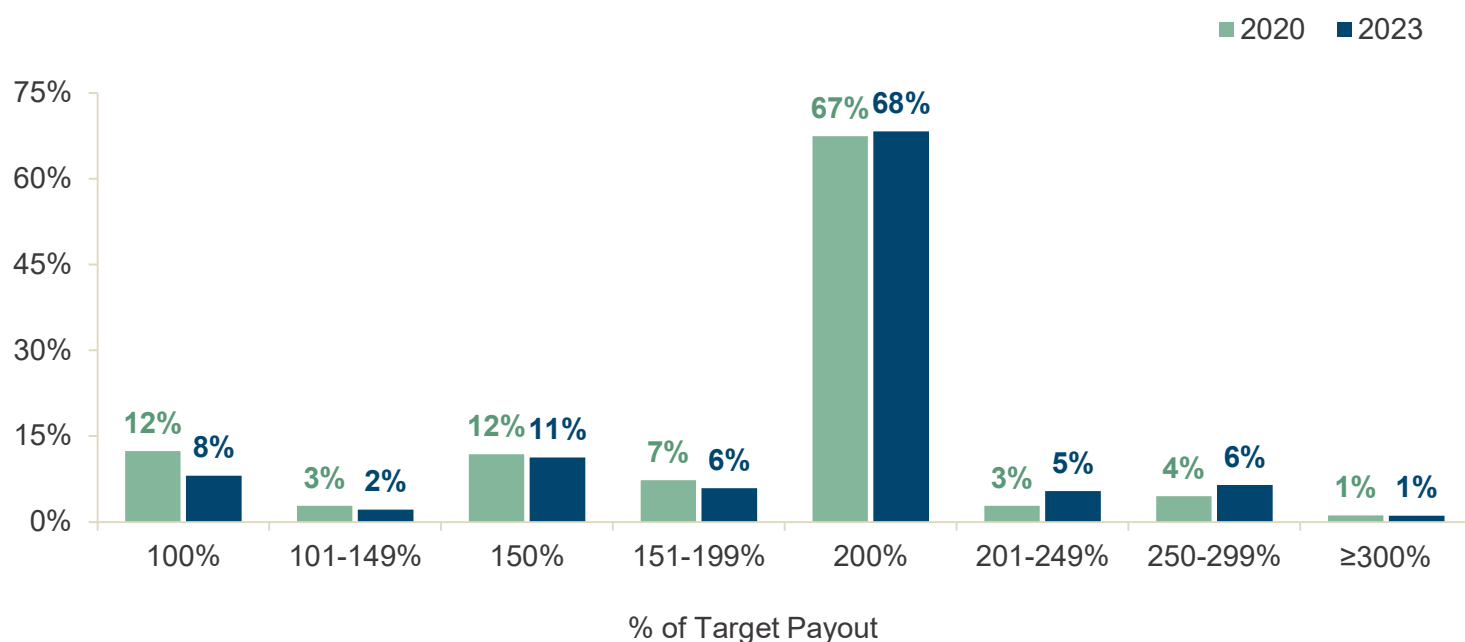
Threshold Payout Leverage (% of Target)

In both 2020 and 2023, the most common threshold payout was 50% of target.



Maximum Payout Leverage (% of Target)

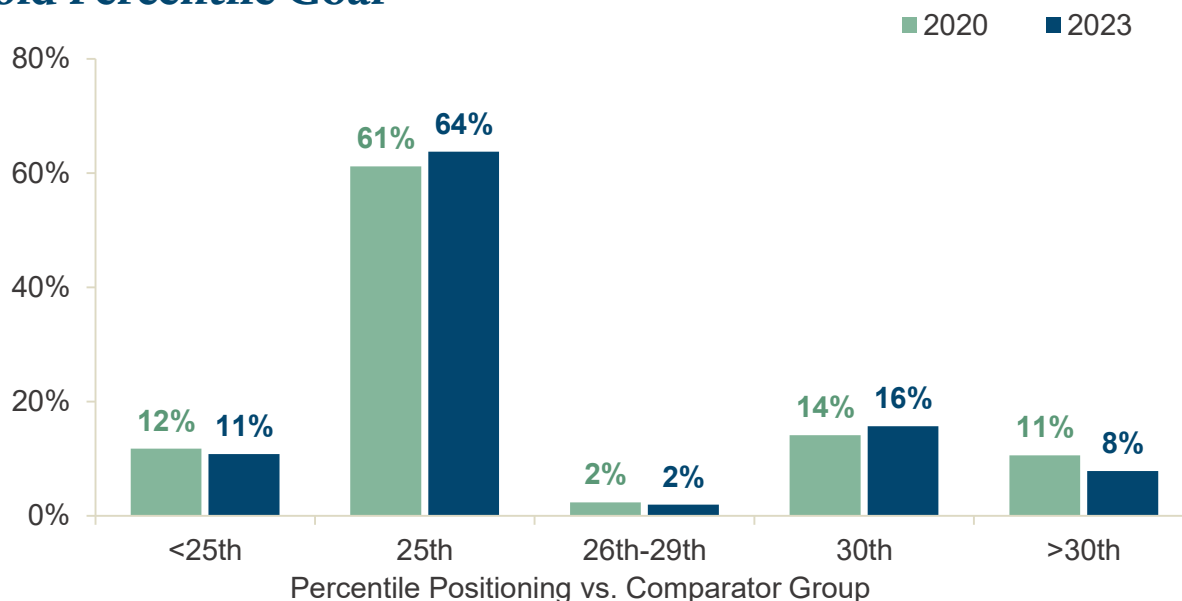
In both 2020 and 2023, the majority of companies set the maximum payout at 200% of target.



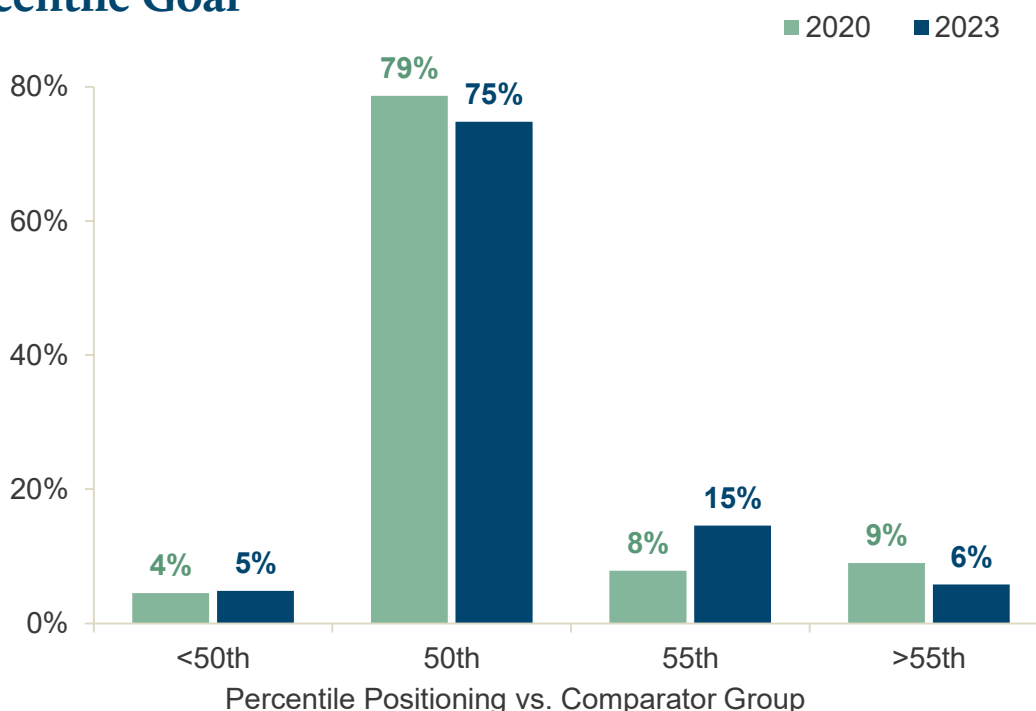
Relative TSR Goal Setting

The use of relative TSR as an LTI measure continues to increase in prevalence (63% of companies granting performance-vested LTI in 2023). The most common threshold, target, and maximum goals are the 25th, 50th, and 75th percentiles vs. the comparator group, respectively.

Threshold Percentile Goal



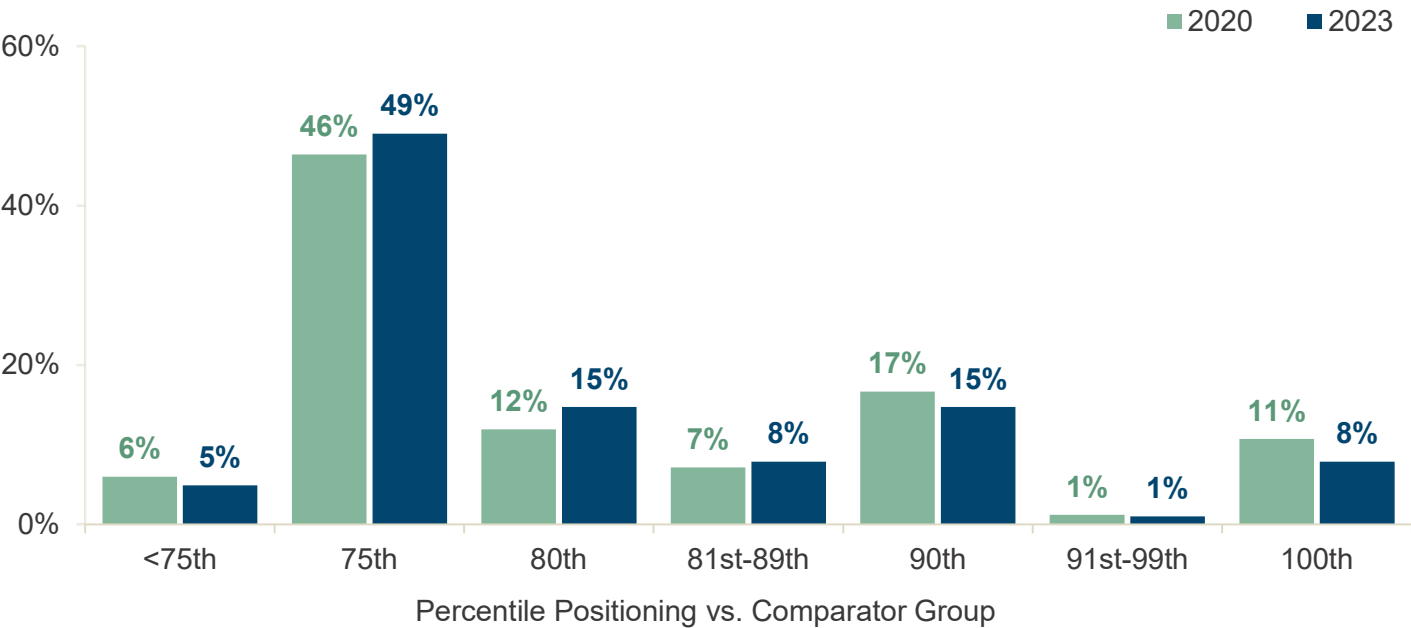
Target Percentile Goal



There is a growing trend towards setting above-median targets (e.g., 55th percentile) as proxy advisory firms have expressed concern whether relative performance at median reflects a rigorous goal that warrants a target payout. This trend is particularly prevalent in weighted TSR measures (as opposed to modifiers), with 20% of companies setting their target goal at the 55th percentile for weighted measures.

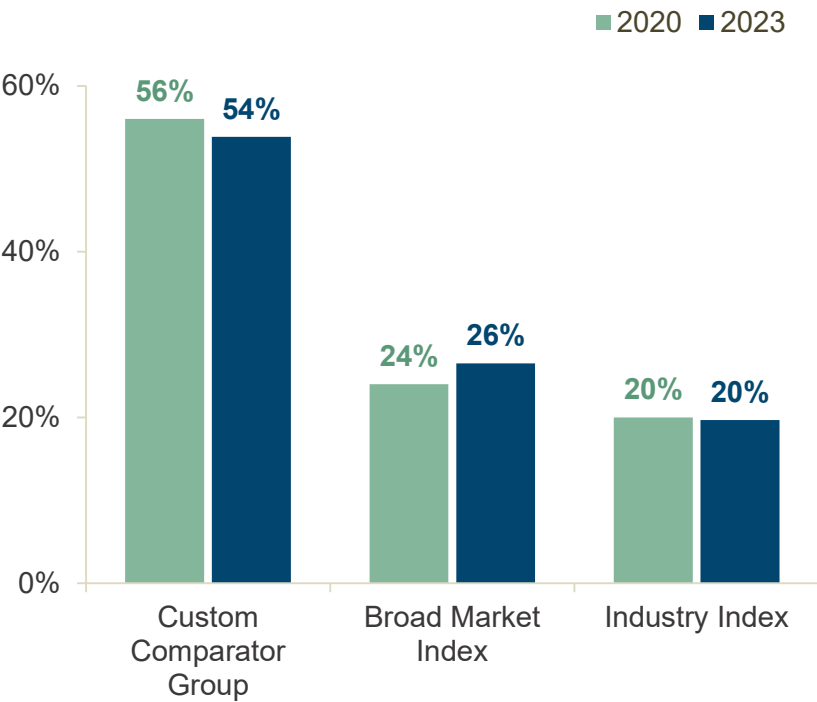
Relative TSR Goal Setting

Maximum Percentile Goal



Comparator Group

In order to best evaluate TSR performance relative to peers, companies must select a relevant comparator group. In 2023, over half of companies compared their TSR performance relative to a custom comparator group.



Additional Information

ClearBridge 200 Methodology & Composition

ClearBridge 200 Methodology

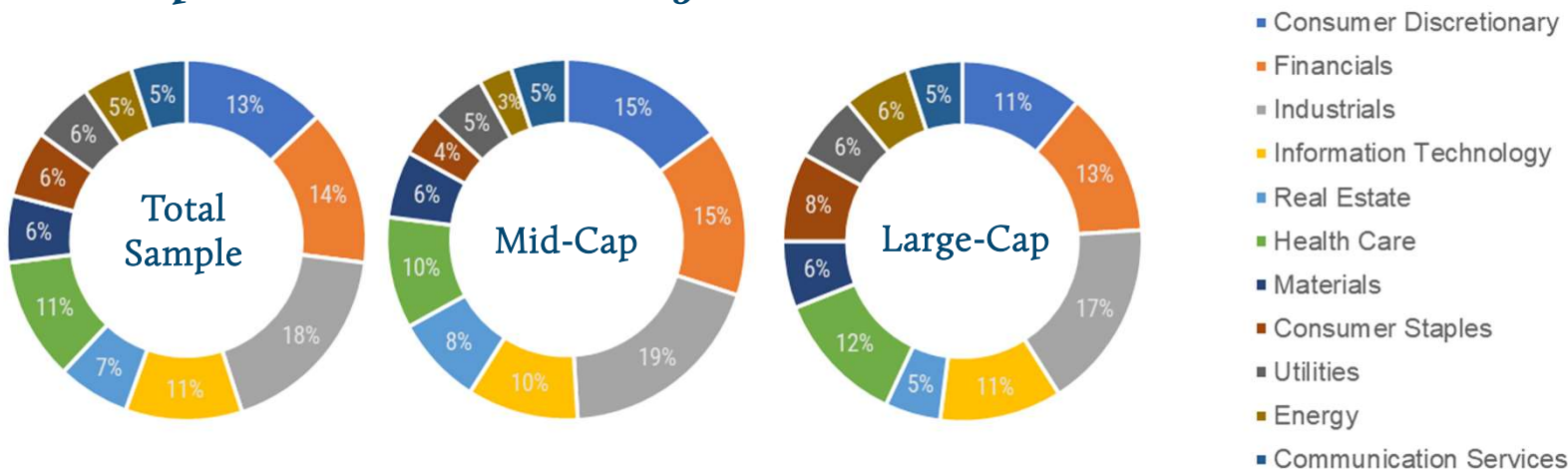
The focus of this study is standard executive LTI programs, and the study only includes data on the core LTI programs (i.e., excludes special one-time awards).

Design features in this report are either expressed as a percentage of the sum of applicable mid-cap and large-cap *ClearBridge 200* companies in total, or as a percentage of applicable companies in mid-cap and large-cap, respectively. In certain charts and tables, totals may not add up to 100% due to rounding or companies that incorporate more than one form of practice.

Characteristics of the *ClearBridge 200*

(\$ Millions)	Fiscal Year Revenue		Market Value as of	
	2019	2022	12/31/2019	12/31/2022
Total Sample				
75th Percentile	\$12,632	\$17,037	\$28,051	\$33,971
Median	\$5,184	\$6,222	\$8,359	\$8,326
25th Percentile	\$1,844	\$2,286	\$4,822	\$5,042
Mid-Cap				
75th Percentile	\$4,601	\$5,561	\$6,357	\$6,714
Median	\$1,976	\$2,733	\$4,820	\$5,136
25th Percentile	\$1,204	\$1,444	\$3,645	\$3,812
Large-Cap				
75th Percentile	\$23,852	\$27,390	\$82,552	\$107,094
Median	\$11,489	\$15,510	\$28,493	\$34,120
25th Percentile	\$5,500	\$6,771	\$14,329	\$16,084

Composition of the *ClearBridge 200*





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