Report: Most Mutual Funds, Pensions Still Failing to Put the Brakes on America's 100 Most Overpaid CEOs

Report Reflects a Systemic Problem; Pension Funds Do Somewhat Better Job Than Mutual Funds in Voting Against High CEO Pay

OAKLAND, CA. – February 17, 2016 – Leading mutual funds and pension funds so far have taken little action to curb the "extraordinary misallocation of assets" represented by the excessive compensation of America's top 100 overpaid CEOs, according to a new report from As You Sow. The report identifies Calamos, Steward, TCW, Wadell & Reed, BlackRock and Vanguard as among the 10 mutual fund families most likely to "rubberstamp" excessive compensation for CEOs.

Titled *The 100 Most Overpaid CEOs: Are Fund Managers Asleep at the Wheel?* and available online at **www.asyousow.org/ceopay**, the As You Sow report cites David Zaslav/Discovery Communications Inc., Leslie Moonves/CBS Corporation, Steve Ells and Marty Moran/Chipotle Mexican Grill Inc., Satya Nadella/Microsoft Corporation, and Jeffrey Leiden/Vertex Pharmaceuticals Inc., as being among the most overpaid CEOs in America. Of the top 25 most overpaid CEOs in the As You Sow list, 11 made the list for the second year in a row. The complete list of overpaid 100 most overpaid CEOs in the S&P 500 is available online at **www.asyousow.org/ceopay.**

The report concludes: **"CEO compensation as it is currently structured does not work: Rather than incentivize sustainable growth it increases disproportionately by every measure, and receives no consequences. Too often it rewards deals above development and risk rather than return on invested capital … The Economic Policy Institute notes that over the period of 1978 to 2013, the inflation-adjusted pay of a typical worker grew by about 0.4 percent a year (a total of 10 percent over 35 years) while the pay of a typical CEO grew almost ten-fold. CEO pay grew an astounding 997 percent over the past 36 years, greatly outpacing the S&P500, which has grown only 504 percent in this time period."**

Lead report author Rosanna Landis Weaver of As You Sow, said: **"The 100 most overpaid CEOs deserve more scrutiny than they are getting today from mutual funds and pension funds. As You Sow believes that now is the time for shareholders, particularly those with fiduciary responsibilities, to become more engaged in their analysis of executive pay and those who award these packages."**

Nell Minow, noted corporate governance expert, said: **"This report puts the focus where it belongs, on the institutional investors and board members who are responsible for pay packages that distort incentives and pay too much for too little. I hope that investors will use these findings as a kind of Yelp guide, to shift their investments to managers who pay attention to pay issues and to vote against directors who have lost sight of their fiduciary obligation to shareholders in approving excessive pay."**

As You Sow CEO Andrew Behar said: **"Everyone wants to be properly compensated for the work they do -- it is part of the American dream and bedrock of the capitalist system. However, as shown in this report, the process which determines CEO pay is broken. The good news is that there are ways to curb excessive CEO pay before it becomes a more inexorable problem and responsible investors are leading the way in providing reasonable solutions."**

OTHER KEY FINDINGS

- **The most overpaid CEOs represent an extraordinary misallocation of assets.** Regression analysis showed 17 CEOs with compensation at least $20 million more in compensation in 2014 than they would have garnered if their pay had been aligned with performance. For example, Discovery (owner of Discovery Channel, Animal

Planet, and the Oprah Winfrey Network) awarded their CEO an astonishing $156 million in compensation. If existing pay packages bore a simple linear relationship to performance, that pay would have been roughly $14 million – resulting in $142 million in excess pay.

- **The company that ranked first for poor CEO pay practices last year, Nabors Industries, has seen such a decline in market capitalization that it was removed from the S&P 500**. Of the 100 companies in the 2015 list, there are 66 that are repeats from last year.

- **Pension funds are making some progress on opposing high CEO pay.** One of the funds with the greatest change was CalPERS, which last year opposed just 30 percent of the overpaid CEO pay packages, and this year increased that opposition level to 47 percent of the overpaid CEO pay packages, an increase of more than 50 percent its opposition. CalPERS, with $300 billion assets under management as of December 31, 2014, is the second largest pension fund. The British Columbia Investment Management Corporation (bcIMC) which manages well over $120 of pension funds had the highest level of opposition (76 percent) to overpaid CEO pay packages of any pension fund we surveyed.

- **Mutual funds are far more likely to rubber stamp high CEO pay than are pension funds.** Of the largest mutual funds, American and Schwab approved 65 percent of these packages, while Blackrock supported 97 percent of them. Some funds seem to routinely rubber stamp management pay practices, enabling the worst offenders and failing in their fiduciary duty. TIAA-CREF, the leading retirement provider for teachers and college professors, is more likely to approve high-pay packages than almost any other institution of its size with support level of 97 percent. For the second year in a row TCW, Steward, and Calamos voted in favor of pay packages at all the companies. Berkshire Hathaway also supported every one of the proposals it voted on, but only holds seven of the companies in their portfolio.

- **Socially responsible investing (SRI) mutual funds were more likely to vote against excessive pay packages.** Eleven SRI mutual funds were surveyed. Of these, one mutual fund, Green Century, failed to cast a vote either for or against any of the 40 say-on-pay resolutions that they voted on – instead abstaining on all. Of the remaining 10 SRI mutual funds, four voted against more than 50 percent of the time and on average they opposed say-on-pay resolutions 50 percent of the time. While they are more likely to vote against excessive pay packages than non-SRI mutual fund groups, there is a significant range in voting patterns – with Domini opposing all 27 resolutions that it voted on and Calvert opposing 87 percent of the 99 resolutions that they voted on. Parnassus, on the other hand, opposed only three of the 25 resolutions that they voted on.

- **Directors play a key role in encouraging excessive CEO compensation.** There are 21 directors who serve on two or more of the boards highlighted by As You Sow. Three directors serve on three such boards. Retired Johnson & Johnson CEO William Weldon serves on the boards of CVS, Exxon Mobil, and JP Morgan – all three companies ranked in this study. Retired Exxon CEO Ray Irani serves on the compensation committee of Wynn Resorts. It may be that such CEOs who were extraordinarily well-paid for their tenure are even less inclined to constrain current pay, even if best practices have changed.

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ABOUT AS YOU SOW

As You Sow is a nonprofit organization that promotes environmental and social corporate responsibility through shareholder advocacy, coalition building, and innovative legal strategies. For more information, visit **www.asyousow.org/ceopay**.

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