S&P 500 Companies with Overpaid CEOs Underperformed the Benchmark by Nearly 3 Percentage Points; 10 Most Overpaid CEOs Underperform by a Gaping 10.5 Percentage Points, According to New *As You Sow* Report

100 Most Overpaid CEOs Report Shows that Overpaid CEOs from 2015 Reduced Shareholder Value When Tracked over Two Years

OAKLAND, CA – February 13, 2017 – Overpaid CEOs appear to be a fundamental leading indicator of future corporate risk and lagging shareholder return, according to the third annual "100 Most Overpaid CEOs: Are Fund Managers Asleep at the Wheel?" report from *As You Sow*. In addition to announcing the new list, *As You Sow* examined how the companies in our inaugural overpaid list have performed financially over the past two years. When taken in aggregate, the 100 S&P 500 companies with the most overpaid CEOs underperformed the index by 2.9 percentage points, while the ten companies with the most egregiously overpaid CEOs underperformed by 10.5 percentage points, destroying shareholder value with a negative 5.7% return.

The report cites Leslie Moonves/CBS Corporation, Marc Benioff/Salesforce, David Zaslav/Discovery Communications Inc., Jeffrey Leiden/Vertex Pharmaceuticals Inc., Lloyd Blankfein/Goldman Sachs, and Marissa Mayer/Yahoo as being among the 25 most overpaid CEOs. Of these top 25, 14 made the list for the second year in a row. The new report with the complete list is available online at **www.asyousow.org/ceopay**.

Leading mutual funds including Goldman Sachs, Blackrock, and Fidelity continue to "rubberstamp" excessive compensation for CEOs. Large pension funds are voting against packages more than they have in the past, including The State of Wisconsin Investment board that voted against 73% of the pay proposals on the list, up from 37% last year.

The report concludes: "Beyond the web of cronyism amongst those responsible for deciding and approving pay packages, this report shows that there is little alignment between pay and performance. Overall, these practices promote an unsustainable system. Too often, CEOs have received windfalls based on purely external factors. Many metrics that drive pay are short-term (even those considered long-term are typically for three years or less), and provoke decisions with negative long-term impact (from financial engineering to underinvestment in growth)."

Lead author Rosanna Landis Weaver of *As You Sow*, said: "It appears that companies with overpaid CEOs fell behind their competitors, and this has negative implications for everyone involved. Shareholders, especially those with fiduciary responsibilities, need to continue to heavily scrutinize executive pay packages and exercise their right to vote with authority."

As You Sow CEO Andrew Behar said: "We are happy to see that some institutional investors are waking up, taking the reins, and denying excessive pay packages. It is more important than ever for U.S. corporations to incentivize their employees in an equitable way, as it is done across the rest of the globe. The current imbalance in compensation is causing great harm to the fabric of civil society and it is up to shareholders to say 'no' with their proxy vote."

OTHER KEY FINDINGS

- **Of the top 25 most overpaid CEOs, 15 made the list for the second year in a row, and 10 have been on the list for the third time.** These rankings are based on a statistical analysis of company financial performance with a regression to identify predicted pay, as well as an innovative index developed by *As You Sow* that considers more than 30 additional factors.
- **The companies we listed in the first report on overpaid CEOs has markedly underperformed the S&P 500 since that time**. The 10 companies we identified with the most overpaid CEOs, as a group, underperformed the S&P 500 index by a gaping **10.5** percentage points and actually demolished shareholder value as a group with **–5.7%** financial returns. In summary, the most overpaid CEO firms destroyed shareholder value since our first report.
- **Many of the overpaid CEOs are insulated from shareholder votes, suggesting that shareholder scrutiny can be an important deterrent to outrageous pay packages.** A number of the most overpaid CEOs are at companies with unequal voting structures and/or triennial votes, so shareholders did not have the opportunity to vote this year on the extraordinary packages. While the say-on-pay law allows less frequent votes, and shareholders can decide if they prefer to vote every one, two, or three years, the vast majority of companies hold annual votes on pay. We believe that the fact that our list of the top 25 overpaid CEOs includes several companies that do not hold annual votes on pay implies that such insulated companies are more willing to flaunt best practices on pay and performance.
- **The most overpaid CEOs represent an extraordinary misallocation of assets.** Regression analysis showed **14 companies** whose CEOs received compensation at least $20 million more in 2015 than they would have garnered if their pay had been aligned with performance.
- **Shareholder votes on pay are wide-ranging and inconsistent, with pension funds engaging in more quantitative analysis.** This report, representing the broadest survey of institutional voting ever done on the topic, shows that pension funds are more likely to vote against overpaid packages than mutual funds. Using various state disclosure laws, we were able to collect data from over 30 pension funds. The data shows some pension funds approving just 18% of these overpaid CEO pay packages, to others approving as many as 93% of them.
- **Mutual funds, on the other hand, are far more likely approve of these overpaid CEO pay packages even though among mutual funds there is wide variation**. Of the mutual funds with the largest changes in voting habits from last year, all of them opposed more of the pay packages than they had the prior year. In addition to the trending votes, several funds have indicated that, at a minimum, they will be reviewing pay more closely. Of the largest mutual funds, Dimensional Fund Advisors opposed 53% of these packages, while Blackrock opposed only 7% of them. Some funds seem to routinely rubberstamp 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 levels of 90%.
- **Directors, who should be acting as stewards of shareholder interests, should be held individually accountable for overseeing egregious pay practices.** A number of directors serve on two or more overpaid S&P 500 compensation committees. We list the companies that over-paying directors serve on, and identify individuals who serve on two or more "overpaid" S&P 500 compensation committees.

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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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