

## *Client Briefing*

# Relative TSR Prevalence and Design of S&P 500 Companies—2016

---

## **EXEQUITY**

Independent Board and  
Management Advisors

Over the last several years as compensation committees and executives strive to align pay with shareholder returns, they have increasingly turned to market-based performance measures such as relative total shareholder return<sup>1</sup> (RTSR). Traditionally, RTSR was used primarily by Energy and Utilities companies, largely because these companies' stock prices tend to be closely correlated, so TSR differences can more confidently be attributed to the success of management's stewardship. Over the past several years, many companies outside of the Energy and Utilities arena adopted RTSR plans, and now more than 50% of S&P 500 companies use RTSR in their long-term incentive plans. However, adoption of new RTSR plans has slowed recently.

Exequity analyzed the key design elements of RTSR programs in an effort to discern *how* RTSR is being implemented across S&P 500 companies and whether the new entrants to the RTSR fold have designed their plans similarly to the traditional Energy or Utilities companies.

### **Summary of Findings**

More than 50% of S&P 500 companies now use RTSR as a metric or modifier in long-term incentive awards. RTSR as a discrete metric is the most prevalent method, used by 81% of companies, while 19% utilize RTSR as a modifier. Among companies employing RTSR as either a metric or modifier, approximately one-half measure RTSR against a custom group of companies, and of those companies, 43% against the same peer group used for benchmarking compensation levels and 57% against a custom performance peer group. The remaining half measure RTSR against a pre-defined set of peers determined by a third party (e.g., a stock index such as the S&P 500), and of those companies, 54% of companies use a multi-sector index (e.g., the S&P 500) and 46% a single-sector index (e.g., S&P 500 Utilities or FTSE NAREIT Index). The single most utilized index is the S&P 500, used by 25% of all companies using RTSR.

Overall, 50% of performance awards are measured based on RTSR. Threshold performance is commonly the peer group 25<sup>th</sup> percentile and maximum is commonly the 75<sup>th</sup> or 90<sup>th</sup> percentile. Payouts for achieving threshold performance tend to range between 25% and 50% of target, maximum between 150% and 200%.

The remainder of this Client Briefing presents our findings and discernible differences between traditional users and companies in industries more recently adopting RTSR.

---

<sup>1</sup> Total shareholder return is defined as the change in a company's stock price plus reinvested dividends.

## Prevalence

Energy and Utilities companies continue to be the primary users of RTSR across the S&P 500, with 85% of Energy and nearly all Utilities companies using RTSR. Of the remaining industries with 20 or more companies in the S&P 500, Materials and Real Estate companies are the only other sectors with 60% or higher RTSR prevalence. Within each of these high-prevalence sectors, companies tend to face similar commodity price pressures or economic similarities, potentially rendering RTSR a more reliable method for identifying financial and operational outperformance via market performance. (We refer to Energy, Materials, Real Estate, and Utilities companies collectively as the Core group of RTSR users, while the remaining companies we refer to as Non-Core.)

We note that Non-Core RTSR companies generally have lesser (or more diversified) commodity pricing (or other) pressures and tend to use RTSR with roughly one-half the frequency of Core companies. Prevalence among other Non-Core companies is generally within the 40% to 50% range. We would posit that Non-Core companies experience a more diverse array of stock price pressures than do Core companies by virtue of various industry-specific factors that operate as independent variables, from raw materials and transportation costs to consumer preferences.<sup>2</sup> It appears that industry-specific forces are driving the ways in which RTSR is used in pay programs.

The table below reflects the prevalence of RTSR programs within selected industries:

|               | GICS Sector                             | S&P 500    | # Using RTSR | % Using RTSR |
|---------------|---|------------|--------------|--------------|
| Core RTSR     | Utilities                               | 29         | 28           | 97%          |
|               | Energy                                  | 40         | 34           | 85%          |
|               | Real Estate                             | 27         | 21           | 78%          |
|               | Materials                               | 27         | 18           | 67%          |
|               | <b>Core RTSR</b>                        | <b>123</b> | <b>101</b>   | <b>82%</b>   |
| Non-Core RTSR | Health Care                             | 56         | 27           | 48%          |
|               | Information Technology                  | 67         | 32           | 48%          |
|               | Consumer Staples                        | 38         | 18           | 47%          |
|               | Industrials                             | 65         | 28           | 43%          |
|               | Consumer Discretionary                  | 83         | 35           | 42%          |
|               | Financials (Excluding Real Estate)      | 63         | 22           | 35%          |
|               | Telecommunication Services <sup>1</sup> | 5          | 4            | 80%          |
|               | <b>Non-Core RTSR</b>                    | <b>377</b> | <b>166</b>   | <b>44%</b>   |
|               | <b>S&amp;P 500</b>                      | <b>500</b> | <b>267</b>   | <b>53%</b>   |

<sup>1</sup> Included in Non-Core RTSR due to small sample size.

**Note:** Prevalence data for 2016 collected from proxies filed for S&P 500 companies with fiscal years ending March 2015 through February 2016.

<sup>2</sup> For example, the share price of a health care equipment company reliant upon a certain precious metal (presumably provided by a Materials company) may exhibit sensitivities to the price swings of this commodity, but this will be one of many factors impacting this hypothetical health care company's share price. The precious metal company's share price will show much greater—and direct—sensitivity to the same price swings.

Overall, prevalence of RTSR programs for 2016 is only slightly higher than in 2015:

|               | 2016 % Using RTSR | 2015 % Using RTSR | 2014 % Using RTSR | 2013 % Using RTSR |
|---------------|-------------------|-------------------|-------------------|-------------------|
| Core RTSR     | 82%               | 81%               | 79%               | 70%               |
| Non-Core RTSR | 44%               | 43%               | 41%               | 32%               |
| S&P 500       | 53%               | 52%               | 51%               | 41%               |

**Note:** Reflects prevalence for companies with fiscal years ending March to February (e.g., 2016 reflects companies with fiscal years ending March 2015 to February 2016).

### Metric Versus Modifier

Companies typically employ RTSR in one of two ways: as a discrete metric within a performance plan or as a modifier to a financial metric. Used as a discrete metric, RTSR is assigned a weighting within the performance share plan, e.g., a company using RTSR as a discrete metric may weight it 50% and return on capital 50%. As a modifier, RTSR generally adjusts performance plan payouts, which typically measure a non-market metric (e.g., return on capital). In most cases, RTSR modifiers provide for upward or downward adjustment to plan payouts (e.g., a modifier of +/- 25%), though companies may also utilize downward-only or upward-only modifiers.

A majority of S&P 500 companies including RTSR in their long-term incentive plans use it as a discrete metric within their performance plans. The most prevalent weighting given to RTSR under performance share plans is 100%, but at the median, RTSR weighting is 50%. Core companies use RTSR as the sole performance metric more frequently than Non-Core companies. Core companies also use RTSR as a discrete metric in their performance plans more frequently than Non-Core companies.

Recently, more companies adding RTSR to their performance plans have done so by using the modifier approach, which accounts for much of the increase in overall RTSR prevalence since 2013.

The table below identifies the ways in which RTSR is used within selected industries:

|                      | GICS Sector                        | % Using RTSR | RTSR as Long-Term Incentive Metric |                                     |                                   | RTSR as Long-Term Incentive Modifier |
|----------------------|------------------------------------|--------------|------------------------------------|-------------------------------------|-----------------------------------|--------------------------------------|
|                      |                                    |              | % Using                            | Median % of Performance Share Units | Mode % of Performance Share Units |                                      |
| Core RTSR            | Utilities                          | 97%          | 93%                                | 50%                                 | 50%                               | 7%                                   |
|                      | Energy                             | 85%          | 97%                                | 100%                                | 100%                              | 3%                                   |
|                      | Real Estate                        | 78%          | 100%                               | 90%                                 | 100%                              | 5%                                   |
|                      | Materials                          | 67%          | 89%                                | 50%                                 | 50%                               | 11%                                  |
|                      | <b>Core RTSR</b>                   | <b>82%</b>   | <b>95%</b>                         | <b>66%</b>                          | <b>100%</b>                       | <b>6%</b>                            |
| Non-Core RTSR        | Health Care                        | 48%          | 78%                                | 50%                                 | 50%                               | 22%                                  |
|                      | Information Technology             | 48%          | 75%                                | 50%                                 | 100%                              | 25%                                  |
|                      | Consumer Staples                   | 47%          | 61%                                | 50%                                 | 100%                              | 39%                                  |
|                      | Industrials                        | 43%          | 79%                                | 50%                                 | 50%                               | 21%                                  |
|                      | Consumer Discretionary             | 42%          | 60%                                | 50%                                 | 100%                              | 40%                                  |
|                      | Financials (Excluding Real Estate) | 35%          | 82%                                | 50%                                 | 50%                               | 18%                                  |
|                      | Telecommunication Services         | 80%          | 75%                                | —                                   | —                                 | 25%                                  |
| <b>Non-Core RTSR</b> | <b>44%</b>                         | <b>72%</b>   | <b>50%</b>                         | <b>50%</b>                          | <b>28%</b>                        |                                      |
| <b>S&amp;P 500</b>   | <b>53%</b>                         | <b>81%</b>   | <b>50%</b>                         | <b>50%</b>                          | <b>19%</b>                        |                                      |

## Peer Group

The selection of an RTSR peer group is a critical factor in the establishment of an RTSR program. Broadly speaking, there are three categories of peer groups used by companies to benchmark RTSR:

- Multi-sector index—a broad-based index comprising multiple sectors such as the S&P 500 or two or more sectors within a broad-based index (e.g., S&P 500 excluding Financials).
- Single-sector index—an index comprising a single sector, such as an S&P sector index or non-S&P index such as the MSCI US REIT Index; other examples include the S&P 500 Utility Index or S&P 1500 Utility Index.
- Custom peer groups—the custom compensation benchmarking peers or custom performance peers.

Across the S&P 500, approximately one-half of companies use a peer group defined by a third party (e.g., S&P 500 or a sector index) and the other half use a customized peer group. Most Core companies (approximately 90%) use a focused peer group to benchmark RTSR by using either a single-sector index or custom group of companies. Notably, few Core companies, other than Materials companies, benchmark RTSR relative to multi-sector indexes. Non-Core companies, but especially consumer-oriented companies, are more likely to use a broad index such as the S&P 500.

|                      | GICS Sector                        | % Using RTSR | Multi-Sector Index | Single-Sector Index | Custom Group       |                   |
|----------------------|------------------------------------|--------------|--------------------|---------------------|--------------------|-------------------|
|                      |                                    |              |                    |                     | Compensation Peers | Performance Peers |
| Core RTSR            | Utilities                          | 97%          | —                  | 50%                 | 18%                | 32%               |
|                      | Energy                             | 85%          | 3%                 | 15%                 | 26%                | 56%               |
|                      | Real Estate                        | 78%          | 19%                | 76%                 | —                  | 5%                |
|                      | Materials                          | 67%          | 39%                | 6%                  | 28%                | 28%               |
|                      | <b>Core RTSR</b>                   | <b>82%</b>   | <b>12%</b>         | <b>36%</b>          | <b>19%</b>         | <b>34%</b>        |
| Non-Core RTSR        | Health Care                        | 48%          | 15%                | 33%                 | 37%                | 15%               |
|                      | Information Technology             | 48%          | 47%                | 28%                 | 13%                | 13%               |
|                      | Consumer Staples                   | 47%          | 39%                | 11%                 | 28%                | 22%               |
|                      | Industrials                        | 43%          | 39%                | 18%                 | 18%                | 25%               |
|                      | Consumer Discretionary             | 42%          | 57%                | 3%                  | 14%                | 26%               |
|                      | Financials (Excluding Real Estate) | 35%          | 23%                | 9%                  | 27%                | 41%               |
|                      | Telecommunication Services         | 80%          | 25%                | 25%                 | —                  | 50%               |
| <b>Non-Core RTSR</b> | <b>44%</b>                         | <b>38%</b>   | <b>17%</b>         | <b>21%</b>          | <b>23%</b>         |                   |
| <b>S&amp;P 500</b>   |                                    | <b>53%</b>   | <b>28%</b>         | <b>24%</b>          | <b>20%</b>         | <b>27%</b>        |

**Note:** Approximately 6% of S&P 500 companies benchmark to more than one peer group. The data above reflects the primary RTSR peer group. The S&P 500 is the most prevalent secondary RTSR peer group.

Among Energy companies, a large majority benchmark against custom groups due to the differing impacts oil prices have on companies within various sectors in the overall industry. For example, a rise (or fall) in global oil prices will affect exploration and production companies differently than oil transportation companies or oil refining companies. Because Utilities are not subject to the intra-sector variances that impact Energy companies, they tend to benchmark to a single-sector index group (e.g., S&P 1500 Utilities or the Dow Utilities Index).

Nearly all S&P 500 companies with RTSR plans use the traditional ranking method for benchmarking relative performance (e.g., percentile rank or numerical rank versus the peer group). An alternative to the traditional ranking method is to measure RTSR relative to an index composite (such as the S&P 500 Index). A company employing this method compares its TSR to that of the index composite figure and adjusts payouts based on the spread between the two figures. For example, if the company's TSR is 15% and the index composite TSR is 5%, then the company beat the index by 10 percentage points. This method is common among REITs, with roughly 40% measuring RTSR against an index composite figure, but is less than 10% prevalent across non-REIT S&P 500 companies.

## Other Design Elements

### Pay/Performance Leverage

Unlike other design elements of RTSR plans, pay/performance leverage varies less across industries:

|               | Performance |       |         |                   | Payout  |      |         |      |
|---------------|-------------|-------|---------|-------------------|---------|------|---------|------|
|               | Median      |       | Mode    |                   | Median  |      | Mode    |      |
|               | Thresh.     | Max.  | Thresh. | Max. <sup>1</sup> | Thresh. | Max. | Thresh. | Max. |
| Core RTSR     | 25%         | 87.5% | 25%     | 75%               | 37.5%   | 200% | 50%     | 200% |
| Non-Core RTSR | 25%         | 80%   | 25%     | 75%               | 50%     | 200% | 50%     | 200% |
| S&P 500       | 25%         | 80%   | 25%     | 75%               | 50%     | 200% | 50%     | 200% |

<sup>1</sup> Among core companies, prevalence of 75<sup>th</sup> and 90<sup>th</sup> percentiles is nearly evenly split: 29% use the 75<sup>th</sup> and 28% use the 90<sup>th</sup>. Among Non-Core companies, 66% use the 75<sup>th</sup> percentile and 26% use the 90<sup>th</sup> percentile.

**Note:** When RTSR is used as a modifier, the most common performance hurdles are 25<sup>th</sup> and 75<sup>th</sup> percentiles (threshold and maximum, respectively), and the median/mode percentage modifier is +/- 25%.

### Negative TSR Cap

An increasing number of companies are imposing a "cap" on RTSR payouts when absolute TSR is negative. Compensation Committees are increasingly uncomfortable with the possibility of above-target RTSR payouts when shareholder returns over the measurement period are negative. Shareholders and proxy advisors tend to favor capping awards at target when absolute TSR is negative. Less than 20% of S&P 500 companies disclose caps on RTSR awards, based on the most recent proxy filings as of this publication, but prevalence of negative TSR caps is undoubtedly increasing.

### Stock Price Averaging

Since RTSR is a naturally volatile incentive metric, companies commonly employ stock price averaging to smooth out the impact of daily stock price movements on relative performance at the beginning and end of the performance period. Stock price averaging periods range from 5 trading days to 90 calendar days (e.g., 4<sup>th</sup> quarter average), with the most common time frame approximating one month (e.g., 30 calendar days or 20 trading days).

Among those companies disclosing averaging periods, approximately 60% use a period of one to four weeks (e.g., 5 trading days to 30 calendar days), with 20 trading or 30 calendar days being the most prevalent periods. Among the remaining companies, 20% use a period of six to ten weeks (e.g., 45 calendar or 30 trading days), and 20% a 90-calendar day period. (**Note:** Some companies do not disclose averaging periods in proxy filings, even if they are used in calculating RTSR.)

Stock price averaging periods are commonly viewed as shareholder-neutral, working neither in favor of nor against executives' wealth interests. To test this common perception, we measured 3-year TSRs of S&P 500 companies using 30-, 60-, and 90-day share price averaging periods and compared results to point-to-point TSR (i.e., no averaging period). We measured TSR on an absolute and relative basis versus the S&P 500 for 3-year periods ending quarterly over the past three years. We found that while on average differences are indeed minimal, calculated TSR increasingly deviates from the shareholder experience as averaging periods are extended. Individual differences in TSR vary, sometimes greatly, which may significantly affect relative performance results.

|                      | Change in Absolute TSR vs. Period-End Price |        |        | Change in RTSR Percentile Rank vs. Period-End Price |        |        |
|----------------------|---|--------|--------|---|--------|--------|
|                      | 30-Day                                      | 60-Day | 90-Day | 30-Day  | 60-Day | 90-Day |
| Average <sup>1</sup> | 1%  | 0%     | -1%    | 3%  | 6%     | 9%     |
| Max <sup>2</sup>     | 52%   | 109%   | 153%   | 12%   | 23%    | 62%    |
| Min <sup>2</sup>     | -72%  | -130%  | -205%  | -44%  | -76%   | -81%   |
| Standard Deviation   | 10%   | 18%    | 29%    | 4%  | 8%     | 12%    |

<sup>1</sup> Average change in RTSR percentile rank is based on the absolute value of change in percentile rank.

<sup>2</sup> Excludes outliers in the lowest and highest 1% due to periodic extreme share price swings (e.g., Netflix).

We also found that use of share price averaging periods rarely results in absolute TSR swinging from negative to positive, or vice versa, which could either trigger or remove a negative TSR cap. Across the periods measured, a 30-day average flipped absolute TSR in just 1% of instances, whereas 60- and 90-day averaging periods flipped absolute TSR in 3% and 4% of instances, respectively.

### ***Above-Median Target Performance Percentile***

Recently, proxy advisors have begun subjecting RTSR plans to an increased level of scrutiny, occasionally criticizing companies for prescribing a target-level payout at median performance. ISS went so far as to suggest that targeting median performance may not always be defensible. Despite this ISS criticism, more than 90% of S&P 500 companies target the peer group median.

### **Discussion**

The data reflects that S&P 500 companies use a variety of methods to deploy RTSR in their long-term incentive programs. Notably, new entrants to the community of RTSR users did not follow the lead of Energy and Utilities companies with regard to peer group selection. Rather, many have chosen to benchmark RTSR against the S&P 500 as a measure of the broader stock market, as opposed to any one particular industry. Companies benchmarking RTSR to multi-sector indexes such as the S&P 500 may seek to compare their returns to a broader array of potential investment choices a hypothetical investor may possess. Interestingly, many companies have apparently determined that usage of a broad index is inappropriate due to the low correlations between their stocks and stocks in other industries (e.g., an electric utility versus a technology company, a restaurant versus an oil drilling company).

Misperceptions remain, however, with regard to how companies use RTSR. For example, in its May/June 2016 edition of *ExecComp Insights*, ISS Corporate Solutions suggested that use of performance peer groups was “more trouble with investors than it’s worth to executives” and “the overwhelming majority of companies use the same peer group for pay benchmarking and performance comparisons.”<sup>3</sup> In fact, a minority of companies use their compensation peer groups to benchmark relative performance (20%);

<sup>3</sup> From ISS Corporate Solutions' *ExecComp Insights*, May/June 2016 e-newsletter.

moreover, *fewer* companies are using their compensation peer groups now than were doing so the year prior (23% in 2015). While ISS may posit that it is preferable to use a single peer group for relative pay and relative performance purposes, 80% of S&P 500 companies benchmarking RTSR appear to disagree. ISS's article makes no mention of the single most prevalent peer group used: the S&P 500. When compensation peer groups consist of companies that are talent and/or size peers but not competitors for investment capital, it is only logical to differentiate between compensation and performance peer groups. We suspect most institutional investors (ISS's clients) understand this.

The rise in RTSR prevalence over the last 10 years has many roots, from the impact of say-on-pay to the increasing influence of proxy advisors. Companies finding it challenging to set reasonable long-term goals but feeling pressure by proxy advisors to implement performance-based long-term incentives may turn to RTSR as a non-controversial solution: it demonstrates a commitment to performance-based pay (i.e., "checks the box" for ISS), requires no goal setting (outside of relative ranking), is ostensibly objective, and is intended to align executive wealth with the shareholder experience. However, as a backward-looking metric, RTSR does little to motivate executive behaviors and is often viewed as a "lottery ticket" by participants—especially in instances where peer group companies poorly correlate with the sponsor. Regardless, RTSR is widely perceived as a "shareholder-friendly" metric, as it aligns with relative shareholder returns. In our view, RTSR can be a shareholder-friendly metric, as long as it can be expected to reasonably and reliably reflect a company's relative overall performance via market performance.<sup>4</sup>

If a company does not trade similarly to, and exhibits market characteristics out of line with, its RTSR peers, the peer group cannot be expected to reasonably reflect the sponsor company's relative performance. In such a case, relative performance outcomes are more likely to result from chance—the antithesis of shareholder-friendly pay-for-performance alignment.<sup>5</sup> Determination of relative market comparability is difficult to surmise without a rigorous analysis.

The SEC's forthcoming pay-for-performance rules place a great deal of emphasis on relative market performance, which could further encourage use of RTSR. From our perspective, RTSR is a metric to be approached with caution. We think companies currently using or contemplating RTSR should consider the approach taken by Core RTSR users, who tend to use focused sets of peers against whom relative performance may be more reliably measured. We would strongly encourage companies to assess their relative market characteristics—using an objective analysis such as Exequity's Market Analytics—early on in the process of deciding whether or how to use RTSR or when reviewing the appropriateness of their current RTSR peer groups. Market Analytics helps determine if RTSR is a reasonable metric to use and, if so, which index or peer group of companies can be expected to best measure a company's relative performance and drive the relative pay-for-performance outcomes shareholders expect.

---

<sup>4</sup> There are other design elements that may not be considered shareholder-friendly, such as the potential for above-target payouts when shareholder returns are negative.

<sup>5</sup> For example, let us assume measurement of relative performance versus the S&P 500: Is it meaningful if a restaurant company outperforms most Utilities? If a retailer outperforms most Energy companies? In our view, the likely answer is "no" in each of these cases.

## S&amp;P 500 RTSR Prevalence and Design Results Detail

| GICS Sector<br>(Selected GICS Subset)                | S&P 500    | Companies Using RTSR in Long-Term Incentive Plans |                 |                                    |   |   |   |            | RTSR Peer Group        |   |                            |                          |                          |
|--|------------|---|-----------------|------------------------------------|---|---|---|------------|------------------------|---|----------------------------|--------------------------|--------------------------|
|  |            | # Using<br>RTSR                                   | % Using<br>RTSR | RTSR as Long-Term Incentive Metric |   |   | RTSR as<br>Long-Term<br>Incentive<br>Modifier | Method     |                        | Broad-<br>Based/<br>Multi-<br>Sector<br>Index | Single-<br>Sector<br>Index | Custom<br>Comp.<br>Peers | Custom<br>Perf.<br>Peers |
|  |            |   |                 | %<br>Using                         | Median % of<br>Performance<br>Share Units | Mode % of<br>Performance<br>Share Units |   | Rank       | +/- Index<br>Composite |   |                            |                          |                          |
| Utilities  | 29         | 28  | 97%             | 93%                                | 50%                                       | 50%                                     | 7%  | 100%       | —                      | —   | 50%                        | 18%                      | 32%                      |
| Energy   | 40         | 34  | 85%             | 97%                                | 100%                                      | 100%                                    | 3%  | 97%        | 3%                     | 3%  | 15%                        | 26%                      | 56%                      |
| <i>Energy Equipment &amp; Services</i>               | 10         | 6   | 60%             | 83%                                | 50%                                       | 50%                                     | 17%   | 100%       | —                      | —   | 67%                        | —                        | 33%                      |
| <i>Oil, Gas &amp; Consumable Fuels</i>               | 30         | 28  | 93%             | 100%                               | 100%                                      | 100%                                    | —   | 96%        | 4%                     | 4%  | 4%                         | 32%                      | 61%                      |
| Real Estate  | 27         | 21  | 78%             | 100%                               | 90%                                       | 100%                                    | 5%  | 67%        | 38%                    | 19%   | 76%                        | —                        | 5%                       |
| Materials  | 27         | 18  | 67%             | 89%                                | 50%                                       | 50%                                     | 11%   | 94%        | 6%                     | 39%   | 6%                         | 28%                      | 28%                      |
| <b>Core RTSR</b>                                     | <b>123</b> | <b>101</b>  | <b>82%</b>      | <b>95%</b>                         | <b>66%</b>                                | <b>100%</b>                             | <b>6%</b>                                     | <b>91%</b> | <b>10%</b>             | <b>12%</b>                                    | <b>36%</b>                 | <b>19%</b>               | <b>34%</b>               |
| Health Care  | 56         | 27  | 48%             | 78%                                | 50%                                       | 50%                                     | 22%   | 85%        | 15%                    | 15%   | 33%                        | 37%                      | 15%                      |
| Information Technology                               | 67         | 32  | 48%             | 75%                                | 50%                                       | 100%                                    | 25%   | 78%        | 22%                    | 47%   | 28%                        | 13%                      | 13%                      |
| Industrials  | 65         | 28  | 43%             | 79%                                | 50%                                       | 50%                                     | 21%   | 96%        | 4%                     | 39%   | 18%                        | 18%                      | 25%                      |
| Consumer Staples                                     | 38         | 18  | 47%             | 61%                                | 50%                                       | 100%                                    | 39%   | 100%       | —                      | 39%   | 11%                        | 28%                      | 22%                      |
| <i>Food &amp; Staples Retailing</i>                  | 7          | 2   | 29%             | 50%                                | —   | —                                       | 50%   | 100%       | —                      | 100%  | —                          | —                        | —                        |
| <i>Consumer Staples<br/>(Excluding Retailing)</i>    | 31         | 16  | 52%             | 63%                                | 50%                                       | 50%                                     | 38%   | 100%       | —                      | 31%   | 13%                        | 31%                      | 25%                      |
| Consumer Discretionary                               | 83         | 35  | 42%             | 60%                                | 50%                                       | 100%                                    | 40%   | 91%        | 9%                     | 57%   | 3%                         | 14%                      | 26%                      |
| <i>Retailing</i>                                     | 31         | 7   | 23%             | 43%                                | —   | —                                       | 57%   | 86%        | 14%                    | 57%   | —                          | 14%                      | 29%                      |
| <i>Consumer Discretionary<br/>(Excluding Retail)</i> | 52         | 28  | 54%             | 64%                                | 50%                                       | 50%                                     | 36%   | 93%        | 7%                     | 57%   | 4%                         | 14%                      | 25%                      |
| Financials (Ex. Real Estate)                         | 63         | 22  | 35%             | 82%                                | 50%                                       | 50%                                     | 18%   | 77%        | 23%                    | 23%   | 9%                         | 27%                      | 41%                      |
| Telecommunication Services <sup>1</sup>              | 5          | 4   | 80%             | 75%                                | —   | —                                       | 25%   | 100%       | —                      | 25%   | 25%                        | —                        | 50%                      |
| <b>Non-Core RTSR</b>                                 | <b>377</b> | <b>166</b>  | <b>44%</b>      | <b>72%</b>                         | <b>50%</b>                                | <b>50%</b>                              | <b>28%</b>                                    | <b>88%</b> | <b>12%</b>             | <b>38%</b>                                    | <b>17%</b>                 | <b>21%</b>               | <b>23%</b>               |
| <b>S&amp;P 500</b>                                   | <b>500</b> | <b>267</b>  | <b>53%</b>      | <b>81%</b>                         | <b>50%</b>                                | <b>50%</b>                              | <b>19%</b>                                    | <b>89%</b> | <b>11%</b>             | <b>28%</b>                                    | <b>24%</b>                 | <b>20%</b>               | <b>27%</b>               |

<sup>1</sup> Included in Non-Core RTSR category due to small sample size.





If you have any questions about this **Client Briefing**, please contact Ben Burney ((847) 996-3970 or [Ben.Burney@exqty.com](mailto:Ben.Burney@exqty.com)) or any of the following:

|                |                |  |
|----------------|----------------|--|
| Robbi Fox      | (847) 948-8655 | <a href="mailto:Robbi.Fox@exqty.com">Robbi.Fox@exqty.com</a>           |
| Mark Gordon    | (925) 478-8294 | <a href="mailto:Mark.Gordon@exqty.com">Mark.Gordon@exqty.com</a>       |
| Ed Hauder      | (847) 996-3990 | <a href="mailto:Edward.Hauder@exqty.com">Edward.Hauder@exqty.com</a>   |
| Adam Hearn     | (847) 996-3972 | <a href="mailto:Adam.Hearn@exqty.com">Adam.Hearn@exqty.com</a>         |
| Jeff Hyman     | (203) 210-7046 | <a href="mailto:Jeff.Hyman@exqty.com">Jeff.Hyman@exqty.com</a>         |
| Lynn Joy       | (847) 996-3963 | <a href="mailto:Lynn.Joy@exqty.com">Lynn.Joy@exqty.com</a>             |
| Stacey Joy     | (847) 996-3969 | <a href="mailto:Stacey.Joy@exqty.com">Stacey.Joy@exqty.com</a>         |
| Chad Mitchell  | (949) 748-6169 | <a href="mailto:Chad.Mitchell@exqty.com">Chad.Mitchell@exqty.com</a>   |
| Jeff Pullen    | (847) 996-3967 | <a href="mailto:Jeff.Pullen@exqty.com">Jeff.Pullen@exqty.com</a>       |
| Dianna Purcell | (718) 273-7444 | <a href="mailto:Dianna.Purcell@exqty.com">Dianna.Purcell@exqty.com</a> |
| Bob Reilley    | (856) 206-9852 | <a href="mailto:Bob.Reilley@exqty.com">Bob.Reilley@exqty.com</a>       |
| Mike Sorensen  | (847) 996-3996 | <a href="mailto:Mike.Sorensen@exqty.com">Mike.Sorensen@exqty.com</a>   |
| Jim Woodrum    | (847) 996-3971 | <a href="mailto:Jim.Woodrum@exqty.com">Jim.Woodrum@exqty.com</a>       |
| Ross Zimmerman | (847) 996-3999 | <a href="mailto:Ross.Zimmerman@exqty.com">Ross.Zimmerman@exqty.com</a> |

Illinois Office (Headquarters) – 1870 West Winchester Road, Suite 141 • Libertyville, IL 60048

California Offices – 650 Town Center Drive, Suite 830 • Costa Mesa, CA 92626

– 2840 Comistas Drive • Walnut Creek, CA 94598

Connecticut Office – 108 Pine Ridge Road • Wilton, CT 06897

New Jersey Office – 309 Fellowship Road, Suite 200 • Mt. Laurel, NJ 08054

[www.exqty.com](http://www.exqty.com)

You are receiving this **Client Briefing** as a client or friend of Exequity LLP. This **Client Briefing** provides general information and not legal advice or opinions on specific facts. If you did not receive this directly from us and you would like to be sure you will receive future **Client Briefings** and our other publications, please click on the following link to add yourself to our subscription list: <http://www.exqty.com/References/Subscribe.aspx>. If you want to unsubscribe from our list, please click on “Manage Subscription” at the bottom of the e-mail sent to you.

PUB/CB/RTSR Prev and Design of SP500\_20160907

© 2016 Exequity LLP. All Rights Reserved.