



CII Research and Education Fund[®]
An Affiliate of the Council of Institutional Investors

January 2019

BOARD EVALUATION DISCLOSURE

Prepared By Glenn Davis and Brandon Whitehill

Foreword

Strengthening board effectiveness is a high priority for many companies and their shareholders. Whether independently or with the help of outside advisors, many boards regularly conduct evaluations to assess their strengths and identify areas for improvement. Robust evaluation processes provide an important conduit for change as companies require new skills, perspectives and strategies over time. For this reason, investors increasingly regard the review process and its disclosure as key opportunities to enhance board effectiveness and shareholder value.

Proxy statements do not always fully convey the rigor or results of these processes. In 2014, CII published a report highlighting best practices in board evaluation disclosure with examples from predominantly foreign companies.¹ At that time, the prevalence and quality of board evaluation disclosure abroad, particularly in Canada and Europe, surpassed the United States. “While most major U.S. companies have a self-assessment process for the board in place,” the 2014 report explained, “their proxy materials often merely state this fact without elaborating on what the process entails.”

Since then, many U.S. companies have caught up. An EY study found that 93% of Fortune 100 companies that filed proxy statements in 2018 provided at least some substantive disclosure about their board evaluation processes.² But there remains room for improvement of the quality of those processes and their disclosure. Evolving practices in board evaluation, combined with high-profile failures of board oversight, are driving investors’ desire for stronger disclosure of their portfolio companies’ approaches to board assessment.

To be clear, investors generally do not expect the board to reveal the specific details of any board or individual director evaluations. Rather, they want to understand the process by which the board approaches the task of continually improving itself. This report focuses on the board evaluation process as a topic discrete from board qualification disclosure and other general corporate governance matters.

Drawing on a CII-REF review of the proxy statements of more than 100 prominent companies, this report discusses some aspects of strong disclosure and features the proxy statements of U.S. companies that investors, including CII members, find especially effective in communicating the board evaluation process and

¹ [“Best Disclosure: Board Evaluation,”](#) Council of Institutional Investors, September 2014.

² [“Improving Board Performance through Effective Evaluation,”](#) EY Center for Board Matters, October 2018.

outcomes.³ The next section describes seven indicators of strength and the subsequent section highlights 10 companies' disclosure.

Seven Indicators of Strength

The following seven indicators describe elements of evaluation processes that boards should consider and communicate in their disclosure. They are not intended to be prescriptive recommendations, but rather descriptive observations of companies' disclosure that is particularly effective at building investor confidence that a robust process exists. Investors should accommodate, and boards should exercise, flexibility to adopt processes that fit their unique strengths and circumstances.

The 10 companies whose proxy statements are quoted in this section and featured in the next section are Allstate, Bank of America, ConocoPhillips, Exelon, Intercontinental Exchange, McDonald's, Regions Financial, Splunk, Unum Group and W.W. Grainger. They are not intended as a "top 10" list or a comprehensive set of all publicly traded companies providing high-quality disclosure; rather, they provide a point of reference for formulating a strong message to investors on how the company approaches board evaluation.

1. Three-Tiered Review

Effective board evaluation processes assess performance at three levels: the board, the committees and individual directors. Thoughtful disclosure conveys the degree of rigidity or flexibility of the evaluation at different levels of review. For instance, the board and committee level assessments might involve more formal practices, such as written questionnaires, while leaving some flexibility in gathering individual feedback, such as conversational interviews. All 10 companies included some discussion of review on multiple levels in their proxy statements, with the vast majority conducting evaluations on all three of the board, committee and individual director levels.

Example: W.W. Grainger

Each year, the Board conducts a three-part evaluation process coordinated by the Lead Director and the Committee Chairs: full Board evaluation, Committee evaluations, and director self-assessment.

³ CII-REF acknowledges the input of several CII members, in particular New York City Pension Funds, in the development of this report.

Example: Allstate

Allstate's Board evaluation processes include multiple layers performed throughout the year at the board, committee and individual director levels... They include discussions after every meeting, an annual Board assessment and individual director evaluations.

2. Consideration of Peer Review

Effective disclosure indicates that the board at least considered whether to augment its process for evaluating individual directors with the ability to anonymously peer review fellow directors. Individual director assessments and, if deemed appropriate for a given company, peer reviews can help ensure that each individual director is accountable to shareholders and enhances the board's desired qualifications and composition. Some companies ultimately decide not to incorporate peer reviews in their processes while others see them as a key fixture of their approach or adopt them over time after strengthening their evaluation processes.

Example: Exelon

The process for individual director performance assessments was recently strengthened to include peer and senior management input on the contributions and performance of...the independent directors.

3. Appropriate Timing and Format

Most companies conduct a formal evaluation annually, and some employ an additional process to solicit feedback from directors throughout the year, such as informal, periodic conversations between individual directors and the board's leadership. The format of evaluations, through both formal and informal mechanisms, is also a key consideration. To avoid falling into a perfunctory process, boards should actively consider how to improve their evaluation timing and format from year to year. Disclosure should communicate how the board sets the timing of evaluations and balances the use of written questionnaires, oral interviews, group discussions and other methods to most effectively gather feedback.

Example: Bank of America

In addition to the formal annual Board and committee evaluation process, our Lead Independent Director speaks with each Board member at least quarterly, and receives input regarding Board and committee practices and management oversight...

The formal self-evaluation may be in the form of written or oral questionnaires, administered by Board members, management, or third parties. Each year, our Corporate Governance Committee discusses and considers the appropriate approach, and approves the form of the evaluation.

4. Evidence of Follow-Through

Effective disclosure lists examples of specific actions taken and changes made internally in direct response to previous evaluations. The more specific actions taken, without revealing confidential or proprietary information, the more confidence investors have that feedback from evaluations translates into concrete action. Especially strong disclosure draws connections between changes implemented as a result of evaluations and the company's overall strategic objectives. Boards should also disclose whether there is a role for shareholder engagement in assessing board effectiveness and enhancing procedures in the evaluation process.

Example: Regions Financial

As a direct result of the 2017 evaluations, the Board: created a board refreshment and recruitment plan to ensure the Board has the necessary skills to support the Company's strategy; instructed management to enhance Board and Committee materials...; began scheduling regular joint meetings of the Board's Risk Committee and Audit Committee...; and suggested enhancements to the Director orientation and ongoing education program.

5. Linkage to Succession Planning

Investors use board evaluation disclosure to help inform their voting decisions in director elections. Effective disclosure indicates ongoing attention to board composition and expresses a willingness to change if the process reveals that new skills or insights are necessary. The evaluation process should allow for difficult, candid conversations to take place, as occasion may require, at any of the individual, committee or board levels. For instance, the evaluation process

may prompt the decision not to re-nominate an incumbent director. In these cases, robust disclosure communicates why the board decided that a director should retire and what skills the board seeks in a new nominee.

Example: Splunk

The process has also informed Board and Committee composition, which includes evolution of the director skills and experience qualifications criteria to meet the current and anticipated needs of the business.

Example: Intercontinental Exchange

Our board is committed to effective board succession planning and refreshment, including having honest and difficult conversations with individual directors as may be deemed necessary... [I]n the past, directors have decided (for personal or professional reasons) or have been asked (for reasons related to their ongoing contributions to the Board and Company) not to stand for re-election at the next annual meeting of stockholders.

6. Strong Independent Director Leadership

Evaluation processes benefit when the independent chairman or lead independent director plays a prominent role. Many companies' disclosure explains how the lead independent director (or equivalent) filters information and insights across multiple levels and facilitates one-on-one discussions with individual directors. Independent director leadership particularly strengthens committee evaluation and function since board committees generally have majority-independent directors. The chair and members of the nominating and corporate governance committee also play a role in structuring the evaluation process and connecting it to director nominating decisions.

Example: Unum Group

The Governance Committee establishes and oversees the evaluation process... This past year, the evaluation process was conducted in two phases. The first phase focused on the performance of each committee and the Board as a whole. The second phase focused on the evaluation of each director's performance, and was led by the Chairman of the Board in advance and in anticipation of the director nomination process.

7. Prudent Use of Third Parties and Technology

Disclosure should indicate whether the board considered the costs and benefits of leveraging independent third parties or technology platforms to enhance the evaluation process. These supplemental methods may not work well for every company in every year. For instance, companies with smaller boards or those in industries requiring highly technical expertise may not find an external third party useful. Boards of course should also remain mindful of the discoverability of records related to the evaluation in litigation. Many boards, however, do find that employing these methods helps keep director responses anonymous and feedback candid.

Example: ConocoPhillips

The Committee on Directors' Affairs periodically retains an independent third party to manage the evaluation process to ensure it remains as thorough and transparent as possible.

Example: McDonald's

To protect anonymity and the integrity of the Board and peer evaluation process, an independent third party compiles responses to these evaluations into a report for the Chair of the Governance Committee.

10 Examples of Effective Disclosure

The following pages feature the board evaluation section of each company's 2018 proxy statement.⁴ These examples show various approaches to addressing some or all of the indicators of strength. While these selections are not intended as a "top 10 list," they effectively communicate to investors how the boards evaluate themselves, what processes their approach entails and what actionable outcomes arise from their evaluations for continued improvement.

⁴ Full proxy statements are available through SEC EDGAR: [The Allstate Corporation](#) (March 28, 2018), [Bank of America Corporation](#) (March 12, 2018), [ConocoPhillips](#) (April 2, 2018), [Exelon Corporation](#) (March 21, 2018), [Intercontinental Exchange, Inc.](#) (March 29, 2018), [McDonald's Corporation](#) (April 12, 2018), [Regions Financial Corporation](#) (March 9, 2018), [Splunk Inc.](#) (April 26, 2018), [Unum Group](#) (April 12, 2018) and [W.W. Grainger, Inc.](#) (March 15, 2018).

EVALUATION PROCESS

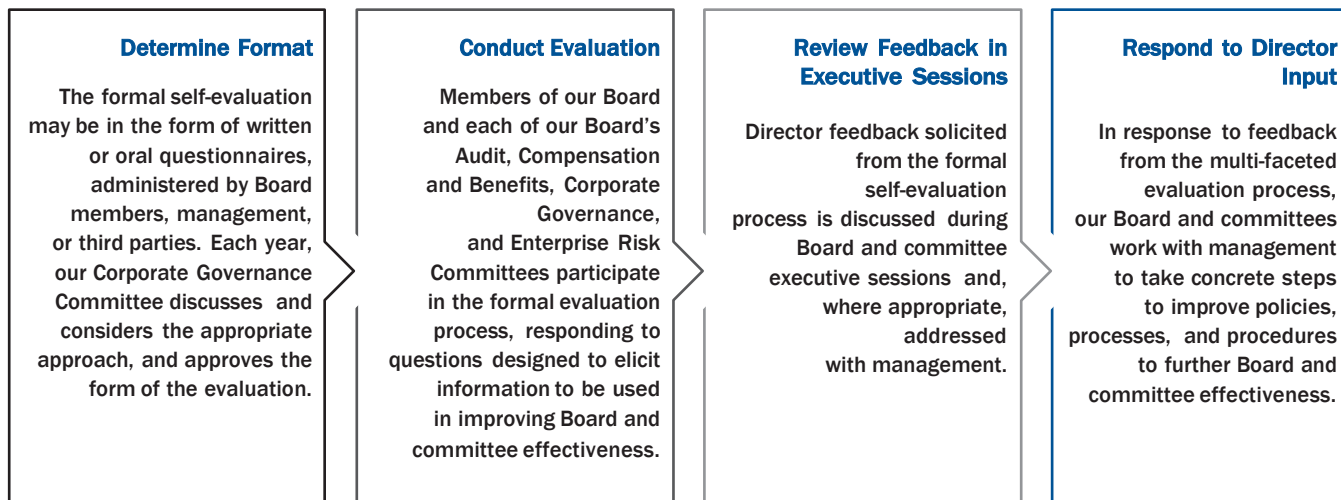
Allstate’s Board evaluation processes include multiple layers performed throughout the year. They ensure that the Board’s governance and oversight responsibilities are updated to reflect best practice and are well executed. They include discussions after every meeting, an annual Board assessment and individual director evaluations.

Steps to Achieve Board Effectiveness

	Process	Performed By	Description	
Board and Committees	Evaluation at every in-person meeting	Independent Directors	<ul style="list-style-type: none"> Measures effectiveness of Board and committee oversight Ensures objectives were satisfied, all agenda items sufficiently considered and information presented was sufficient, complete, understandable and organized Identifies issues that need additional dialogue 	OUTCOME Based on the Board’s new evaluation process, enhancements were made to Board meeting schedules, agendas and materials.
	Biennial review of responsibilities and time allocation	Board and Committees	<ul style="list-style-type: none"> Ensures all necessary agenda items were considered to fulfill Board and committee responsibilities Adjustments made to future agendas and timelines 	
	Annual evaluation NEW	Board	<ul style="list-style-type: none"> Ensures Boards and committees are functioning effectively Results reviewed by nominating and governance committee and summarized for full Board; recommendations for improvement are reviewed and plans initiated 	
Individual Directors	Annual evaluation	Lead Director, NGC Chair, and Chair	<ul style="list-style-type: none"> Review contributions and performance in light of Allstate’s business and strategies and confirm continued independence Feedback provided to each director by the Lead Director, Nominating and Governance Chair, or Board Chair 	OUTCOME Results of evaluations are used by the nominating and governance committee in connection with the annual nomination process; additional interactions with senior management are being added to support directors on key business and strategic matters.
	Biennial evaluation	Lead Director, NGC Chair, and Chair	<ul style="list-style-type: none"> Discuss each director’s future plans for continued Board service Determine whether overall skills align with business strategy 	
	Change in circumstances	Board	<ul style="list-style-type: none"> Determine appropriateness of director’s continued membership on the Board after a change in primary employment Review potential conflicts and whether change impacts director’s ability to devote the necessary time and effort to Board service 	

Board Evaluation

Our Board and our Board's Audit, Compensation and Benefits, Corporate Governance, and Enterprise Risk Committees thoroughly evaluate their own effectiveness throughout the year. The evaluation is a multi-faceted process that includes quarterly one-on-one discussions with our Lead Independent Director, individual director input on Board and Committee meeting topical agenda subjects, executive sessions without management present, periodic input to our CEO and senior management on topical agendas and enhancements to Board and committee effectiveness, and an annual formal self-evaluation developed and administered by the Corporate Governance Committee.



One-on-One Discussions with the Lead Independent Director

In addition to the formal annual Board and committee evaluation process, our Lead Independent Director speaks with each Board member at least quarterly, and receives input regarding Board and committee practices and management oversight. Throughout the year, committee members also have the opportunity to provide input directly to committee chairs or to management.

Formal Self-Evaluation

Information from research commissioned by the Board on the characteristics of highly effective and efficient boards identified five key areas where the research suggested high functioning boards and committees excelled. Our Corporate Governance Committee developed the formal 2017 self-evaluation to solicit director feedback on the five key areas identified to the right. For the 2017 formal self-evaluation, our Corporate Governance Committee also solicited director views on actions taken in response to the prior year's evaluation results, and sought additional input on the Board's director succession planning process. In addition, our Corporate Governance Committee considered industry trends, practices of our peers, feedback from stockholders, and regulatory developments.

Characteristics of Highly Effective Boards

- ✓ Board and Committee Composition
- ✓ Board Culture
- ✓ Board and Committee Focus
- ✓ Board Process
- ✓ Information and Resources

Enhancements Made In Response to Formal Board Self-Evaluations

Board and Committee Composition; Board Culture. Our Board identifies through its self-evaluation process attributes of potential director candidates and how such attributes and qualifications would be additive to our overall Board and committee composition and Board culture in light of our company's current strategy.

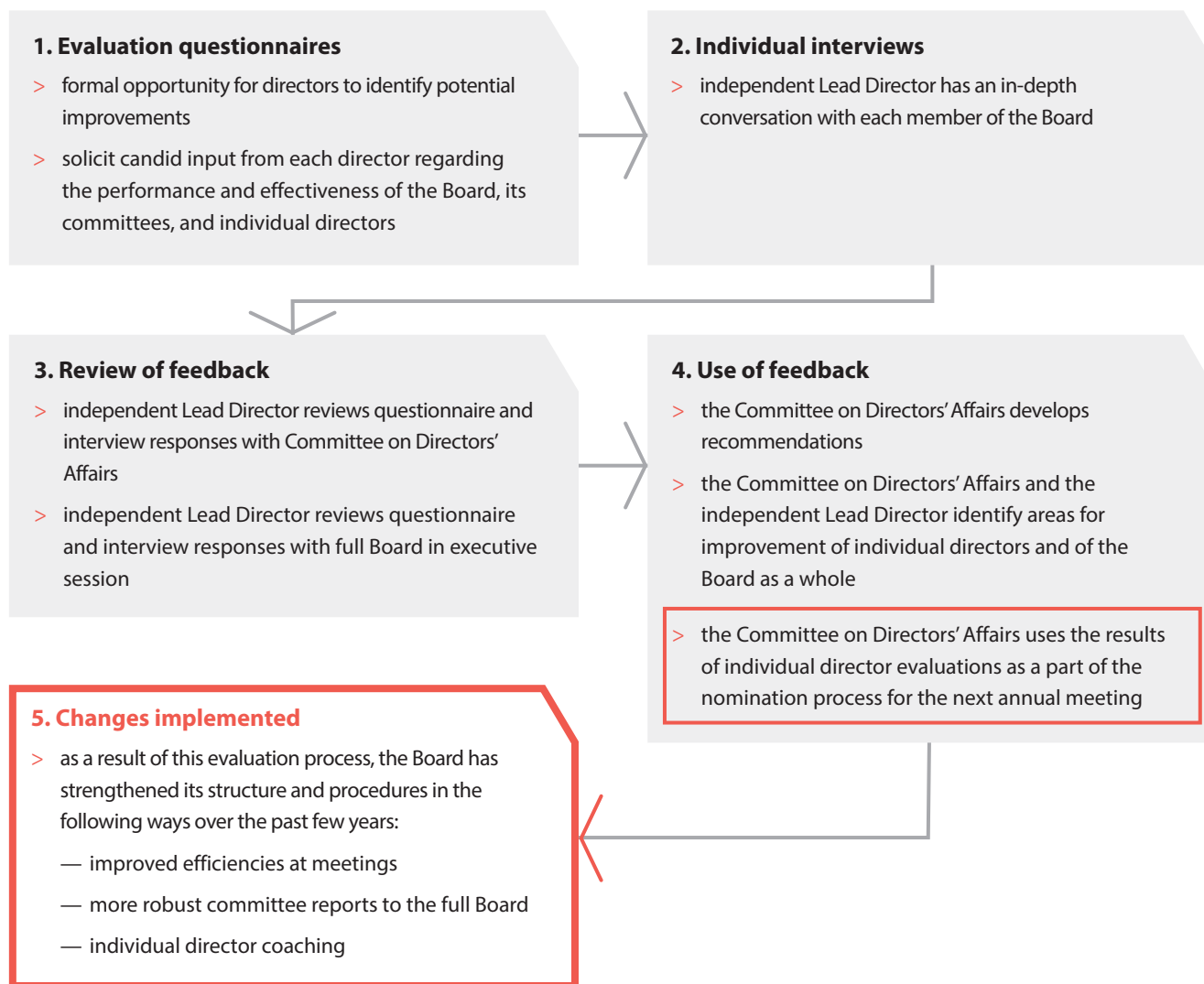
Board and Committee Focus; Board Process. All directors participate in the agenda setting and the strategic planning process through active and regular feedback in executive sessions and to the Lead Independent Director and management. Materials for each Board and committee meeting include the proposed agenda topics for the remainder of the year; these topics are updated over time to reflect director and stockholder input and care is taken to develop Board and committee agendas that are sufficiently flexible to promptly address time-sensitive matters as they arise.

Information and Resources. Our Board requires clear and comprehensive information critical for its effective oversight. In response to director self-evaluations, management considers and implements enhancements to further improve the reporting and materials provided to directors. Significant effort has been devoted to clear, timely, and regular communication between directors and management:

- **Lead Independent Director.** Our Lead Independent Director regularly speaks with other directors, our CEO and management members, and our primary regulators. See “Robust and Well-defined Lead Independent Director Duties” on page 15.
- **Chairman and CEO Memos.** Our Board receives a memo from our Chairman and CEO in advance of every Board meeting with updates on the upcoming meeting, background information on the discussion topics, and information on other relevant developments.
- **Committee Chairs and Other Directors.** Our committee chairs regularly communicate with management to discuss the development of meeting agendas and presentations. The Chair of our Audit Committee communicates regularly with the Corporate General Auditor, Chief Financial Officer, and Chief Accounting Officer; the Chair of the Enterprise Risk Committee communicates regularly with our Chief Risk Officer, Chief Administrative Officer, and Chief Operations and Technology Officer; the Chair of our Corporate Governance Committee communicates regularly with our Chief Administrative Officer, Vice Chairman (chair of our management ESG committee), Global Human Resources Executive, and Corporate Secretary; and the Chair of the Compensation and Benefits Committee communicates regularly with our Global Human Resources Executive.
- **Strategic Planning and Agenda Topic Development.** Each Board member regularly meets with our Global Strategy Executive, both in-person and by phone, to provide input regarding our company’s strategic planning and review process, as well as related agenda topics of interest. Agenda items added in response to the directors’ input are reflected in the “Topical Agendas” for the year and included in the Board’s meeting materials for each meeting.
- **Other Communications to the Board, Committees, Committee Chairs, and Other Directors.** In between Board and committee meetings, directors receive prompt updates from management on developing matters.
- **Reference Materials.** Directors also regularly receive quarterly strategy updates, securities analysts’ reports, investor communications, company publications, regulator publications, law firm memoranda, news articles and video clips, and other reference materials.

Board and Committee Evaluations

Each year, the Board performs a rigorous full Board evaluation, and each director performs a self-evaluation and evaluations of each peer. Generally, the evaluation process described below is managed by the Corporate Secretary's office with oversight by the Committee on Directors' Affairs. However, the Committee on Directors' Affairs periodically retains an independent third party to manage the evaluation process to ensure it remains as thorough and transparent as possible.



In addition to participating in the full Board evaluation, members of each committee also complete a detailed questionnaire annually to evaluate how well the committee is operating and to suggest improvements. The committee Chairs all summarize the responses and review them with their respective committee members.

The Committee on Directors' Affairs reviews these evaluation processes annually and develops any changes it deems necessary.

Board Processes and Policies

Board, Committee, and Individual Director Evaluations

Exelon has strong evaluation processes for its Board, six Board Committees, and individual Directors.



Board Evaluations

The Board conducts an annual assessment of its performance and effectiveness. The process is coordinated by the Board Chair and the chair of the Corporate Governance Committee taking into account the recommendations of the Corporate Governance Committee on the process and criteria to be used for Board, Committee, and individual Director evaluations. All Directors are interviewed by the Board Chair or the chair of the Corporate Governance Committee to discuss the following topics, among others that may arise:

- overall Board performance and areas of focus including strategic and business issues, challenges, and opportunities;
- Board meeting logistics;
- CEO, senior management and Director succession planning;
- accountability to shareholder views;
- Board Committee structure and composition;
- Board culture;
- Board composition; and
- management performance, including quality of materials, provided to the Directors.

Interviews also seek practical input on what the Board should continue doing, start doing, and stop doing. Following such interviews, the Board Chair and Chair of the Corporate Governance Committee collaborate to prepare and provide a summary of the assessment input provided and discussed with the Board.



Committee Evaluations

All six of the Board's Committees conduct annual assessments of their performance and take into consideration:

- the sufficiency of their charters;
- whether Committee members possess the right skills and experiences or whether additional education or training is required;
- whether there are sufficient meetings covering the right topics; and
- whether meeting materials are effective, among other matters.

A summary of all Committee assessment results is provided to the Corporate Governance Committee and Board for review and discussion.



Individual Director Evaluations

Individual Directors are assessed regularly taking into consideration experience, tenure, qualifications, and core competencies as well as contributions and performance. The process for individual Director performance assessments was recently strengthened to include peer and senior management input on the contributions and performance of six of the current twelve independent Directors, with the remaining six Directors undergoing such assessment next year. The Board was divided into two groups taking into account tenure and other diversity considerations to effectively and thoughtfully execute such assessments. All Directors were interviewed to provide input on each of the six Directors and four members of senior management also provided input, based on their regular interactions with Board members. Interviews were conducted by the chair of the Corporate Governance Committee in 2018, as the Board Chair volunteered to undergo assessment in 2018. Topics covered in the interviews included:

- meeting preparedness;
- meaningful and constructive participation and contributions;
- respectful, effective and candid communication skills;
- demonstrated independence;
- Company and industry knowledge;
- strategic foresight; and
- openness to new learnings and training.

Interviews also sought practical input on what Directors should continue doing, start doing, and stop doing. After discussing with the Corporate Governance Committee, the Chair of the Corporate Governance Committee collaborates with the Board Chair and feedback is conveyed separately to the individual Directors assessed for developmental opportunities.



Board Evaluations and Succession Planning

Each year, the members of the Board of Directors and each Board committee conduct a confidential oral assessment of their performance with a member of our legal department. As part of the evaluation process, the Board reviews its overall composition, including director tenure, board leadership structure, diversity and individual skill sets, to ensure it serves the best interests of stockholders and positions the company for future success. The results of the oral assessments are then summarized and communicated back to the appropriate committee chairpersons and our lead independent director. After the evaluations, the Board and management work to improve upon any issues or focus points disclosed during the evaluation process. We believe that conducting these evaluations through a discussion with our Board members leads to more meaningful results that are more likely to result in changes when compared to conducting evaluations through a written process or completion of a questionnaire. As part of the evaluation process, each committee reviews its charter annually.

Our Board is committed to effective board succession planning and refreshment, including having honest and difficult conversations with individual directors as may be deemed necessary. We may have these conversations in connection with ongoing Board self-evaluations, Board refreshment processes, and Nominating & Corporate Governance Committee and Board consideration of the annual slate of Board nominees. As a result of these different processes in the past, directors have decided (for personal or professional reasons) or have been asked (for reasons related to their ongoing contributions to the Board and Company) not to stand for re-election at the next annual meeting of stockholders. It is expected that such refreshment practices will continue in the future.



BOARD AND COMMITTEE EVALUATIONS

Our Board is committed to regular evaluations of itself, its Committees and Directors to measure on going effectiveness and succession planning. Each year, Directors are asked to complete a written evaluation of the Board, their peers and the Committees on which they serve. The following describes the process by which our Board currently carries out its evaluations:

<p>Annual Written Evaluations</p>	<p>Directors complete Board, peer and Committee evaluations and send Board and peer evaluations directly to an independent third party. Committee evaluations are sent to the respective Committee Chair.</p> <p>Board evaluations consider:</p> <ul style="list-style-type: none"> • General board practices, including fostering a culture that promotes candid discussion • Input for improvement • Suggestions for new skills and experiences for potential future candidates <p>Peer evaluations consider a Director's:</p> <ul style="list-style-type: none"> • Contributions to Board discussions and decisions throughout the year • Sharing of knowledge and expertise with Board and senior management • Staying informed on matters that impact the Company • Acting independently and in best interests of shareholders <p>Committee evaluations consider:</p> <ul style="list-style-type: none"> • Members' balance of skills and experiences to promote active participation • Adequacy of information received, including access to non-management resources • Committee effectiveness
<p>Independent Third Party Generates Report</p>	<p>To protect anonymity and the integrity of the Board and peer evaluation process, an independent third party compiles responses to these evaluations into a report for the Chair of the Governance Committee.</p>
<p>Discussion of Results</p>	<p>The Governance Committee and full Board discuss the Board and peer evaluation results. Each of the Board's Committees, except the Executive Committee, discusses its respective Committee evaluation and determines if any follow-up actions are appropriate.</p>
<p>Incorporation of Feedback</p>	<p>The Board and each of its Committees, except for the Executive Committee, develops and executes plans to take actions based on the results, as appropriate.</p> <p>The Chair of the Governance Committee follows up with Directors regarding their peer evaluation results, as appropriate.</p>

Board, Committee, and Individual Director Evaluation Program

Each year the NCG Committee oversees the self-evaluation process for our Board, its Committees, and individual Directors. This self-evaluation is a necessary process in ensuring the Board and its Committees are best equipped to create superior economic value for the Company's stockholders.

At Regions, we agree that appropriate Board refreshment and Director succession planning, accompanied by meaningful annual Director evaluations, are the best means to ensure that the Board members are independent, engaged, and productive, and have the relevant experience and expertise to assist Regions as it executes on its strategy.

Additionally, following feedback from stockholders regarding the annual self-evaluation, we have provided additional transparency into the process, as well as the resulting outcomes.

The following sets forth the Board's self-evaluation process:

As a direct result of the 2017 evaluations, the Board:

- Created a Board refreshment and recruitment plan to ensure the Board has the necessary skills to support the Company's strategy.
- Instructed management to enhance Board and Committee meeting materials so as to better facilitate robust communication and discussion among the Directors and with management so that the meetings are more interactive and discussion-based rather than report-oriented.
- Began scheduling regular joint meetings of the Board's Risk Committee and Audit Committee to review and discuss overlapping reporting that was being made to each Committee separately.
- Suggested enhancements to the Director Orientation and Ongoing Education Program

1

One-on-One Discussions

Prior to the Board's and Committees' full evaluation, the Chair of the NCG Committee, who also serves as the Board's Lead Independent Director, holds individual discussions with each Director to obtain their candid feedback on Board operations and Directors' performance.

2

Committee Discussions

Each Committee conducts its own self-evaluation on topics that are applicable only to the Committee. Committee self-evaluations are facilitated by each Committee's Chair.

3

Reporting to the NCG Committee and full Board

Following the one-on-one discussions, the Chair of the NCG Committee provides a verbal summary, as needed and appropriate, to the NCG Committee and full Board prior to its evaluation.

4

Group Discussions

The self-evaluation program assesses the Board's and Committees' performance in areas such as:

- Board and Committee structure, composition, and efficiency;
- Directors' ability to carry out key Board responsibilities;
- Exchanges between the Board and management;
- Interactions with key stakeholders; and
- Assessing Board member performance and Committee-level assessment.

Using these topics as a springboard for discussion, the Chair of the NCG Committee facilitates the self-evaluation discussions, during which Directors bring their individual expertise and experience to bear on topics raised. The self-evaluation pays particular attention to the Board's oversight of Regions' risk management framework, Board refreshment, and the Board's ability to take actions and make decisions efficiently and independently from Regions' management.

5

Focus on Outcomes

In 2017, the NCG Committee enhanced the self-evaluation program by placing additional emphasis on outcomes. Following the completion of the self-evaluation process, the Chair of the NCG Committee has the opportunity to meet with the General Counsel and Chief Governance Officer to discuss follow-up items. The NCG Committee and its Chair track follow-up actions, as applicable.

6

Incorporate Action Items

As appropriate, the follow-up action items are implemented.

7

Continually Enhanced Self-Evaluations

Any feedback on the self-evaluation process is incorporated into the following year's evaluation.

BOARD EVALUATIONS, EFFECTIVENESS AND EDUCATION

It is important that the Board and its committees perform effectively and act in the best interests of the Company and its stockholders. Each year, the Nominating and Corporate Governance Committee oversees the Board and committee evaluation process. The Nominating and Corporate Governance Committee considers the format and framework for the process.

The evaluation process generally takes one of two forms: an internal assessment led by the Lead Independent Director or an assessment using the services of an independent third-party consultant. In either instance, the purpose of the evaluation is to focus on areas in which the Board or the committees believe contributions can be made going forward to increase the effectiveness of the Board or the committees.

- An internal assessment begins with the Nominating and Corporate Governance Committee initiating the annual board evaluation process and setting a timeline. A written questionnaire covering Board, committee, self and peer performance is completed by each director. The Lead Independent Director then interviews each director to obtain his or her assessment of the effectiveness of the Board and committees, as well as director performance and Board dynamics, summarizes these individual assessments for discussion with the Board and committees, and then leads a discussion with the Nominating and Corporate Governance Committee and the Board. The Board then takes such further action as it deems appropriate.
- For fiscal 2018, the Nominating and Corporate Governance Committee used a third-party consultant, experienced in corporate governance matters, to assist with the Board and committee evaluation process. Directors were interviewed by the independent third party and gave specific feedback on individual directors, committees and the Board in general. Directors responded to questions designed to elicit information to be used in improving Board and committee effectiveness. The independent third party synthesized the results and comments received during such interviews. At subsequent meetings, the Lead Independent Director, in conjunction with the independent third-party consultant, presented the findings to the Nominating and Corporate Governance Committee and the Board, followed by review and discussion by the full Board.

Over the past few years, the evaluation process has led to a broader scope of topics covered in Board meetings and improvements in Board process. These improvements include changes relating to the preparation and distribution of Board materials, adjustments to the timing and location of Board and committee meetings, as well as the creation of the annual strategy deep-dive. The process has also informed Board and committee composition, which includes evolution of the director skills and experience qualifications criteria to meet the current and anticipated needs of the business.

The Company encourages directors to participate in continuing education programs focused on the Company's business and industry, committee roles and responsibilities and legal and ethical responsibilities of directors, and the Company reimburses directors for their expenses associated with this participation. We provide membership in the National Association of Corporate Directors to all Board members. We also encourage our directors to attend Splunk events such as our annual users' conference and take virtual Splunk education classes. Continuing director education is also provided during Board meetings and other Board discussions as part of the formal meetings and may include internally developed materials and presentations as well as programs presented by third parties.



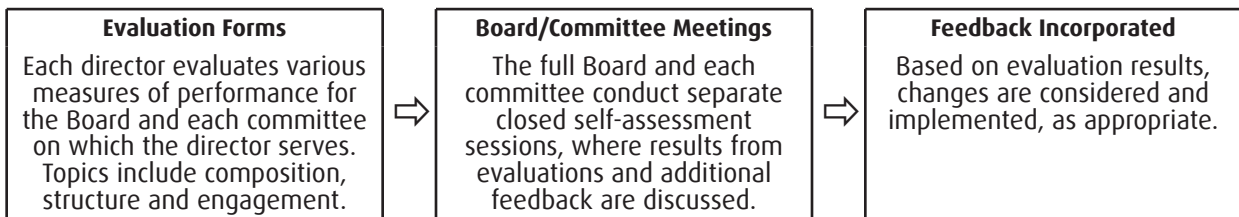
Board Evaluation Process

A healthy and vigorous Board evaluation process is an essential part of good corporate governance. At Unum, this process includes annual evaluations of the Board, each committee, and individual directors.

The Governance Committee establishes and oversees the evaluation process, which focuses on identifying areas where Board, committee and director performance is most effective, as well as opportunities for further development or improvement. Each year, the Governance Committee reviews the format and effectiveness of the evaluation process in identifying actionable feedback for directors to consider, recommending changes in process as appropriate. Determining whether to engage a third-party facilitator is also part of the review.

This past year, the evaluation process was conducted in two phases. The first phase focused on the evaluation of the performance of each committee and the Board as a whole. The second phase focused on the evaluation of each director's performance, and was led by the Chairman of the Board in advance and in anticipation of the director nomination process. This two-phased approach generates robust discussions at all levels of the Board, and has resulted in changes that have improved Board efficiency and effectiveness.

BOARD AND COMMITTEE EVALUATIONS



DIRECTOR PERFORMANCE EVALUATIONS





BOARD, COMMITTEE AND DIRECTOR EVALUATIONS

The Board recognizes that a rigorous evaluation process is an essential component of strong corporate governance practices and promoting ongoing Board effectiveness. Each year, the Board conducts a three-part evaluation process coordinated by the Lead Director and the Committee Chairs: full Board evaluation, Committee evaluations, and director self-assessment. These evaluations, which are annually reviewed by an external corporate governance expert, ask directors to rate how the Board performs and seek feedback on more open-ended topics, including Board and Committee processes and effectiveness, including for example:

- the priority of Board issues, including issues and items that should be discussed at future meetings;
- the quality and timeliness of information provided to the Board;
- the quality of discussions, including director candor and engagement; and
- the areas for improvement in overall Board effectiveness.

The results of the evaluations are compiled anonymously and include responses and comments. The results of the completed Board evaluations and individual director self-assessments are furnished to the Lead Director, while the results of the completed evaluations for the Committees are furnished to the corresponding Committee Chairs, and then discussed at the Board and Committee meetings, respectively. Below is an overview of the key steps in the annual evaluation process.

Evaluation Framework Reviewed

The Board evaluation framework and process is reviewed annually with an external corporate governance expert, including as to opportunities to enhance Board effectiveness.



Process Initiated

The Lead Director and Committee Chairs initiate the annual Board evaluation process.



Evaluation

The Board and Committee evaluations solicit each director's opinion on overall Board/Committee effectiveness and opportunities for improvement. Each director also completes a self-assessment designed to evaluate performance and effectiveness as a director.



Feedback Analysis

Board evaluation and director self-assessment results are furnished to Lead Director; Committee evaluation results are furnished to Committee Chairs, for review and analysis.



Presentation & Discussion of Results

Board evaluation and director self-assessment results are discussed with the full Board; Committee evaluation results are discussed with each Committee.



Follow-Up

The Lead Director and Committee Chairs develop plans for feedback warranting additional action, discussion and consideration at subsequent Board and Committee meetings, as appropriate.

The results of this process are used in several ways, including:

By the Board, to identify skill sets and other attributes desirable in director searches.

By the Board Affairs and Nominating Committee, as part of its' annual review of each director's performance when considering whether to re-nominate the director for re-election to the Board.

By the Committees, to improve their agenda topics and to ensure the information they receive allows them to effectively address the issues most critical to them.

By each director, to identify his or her strengths and areas of opportunity, and provide insight into the areas in which he or she can be most valuable to Grainger.

The information gained through this process helps shape the content of educational presentations to the Board as well as identify the skill sets desirable in director searches conducted by the Board from time-to-time.

As a result of the Board's 2017 evaluation process and related follow up, the Board identified the need for director candidates with proven track records of strategic thinking and experience in eCommerce. In 2017, a new independent director with experience in each of these areas was added to the Board.