

2016 NAREIT

HRForum

September 26-27, 2016 Grand Hyatt Denver • Denver, CO

Maximizing the Value of your Equity
Plan Provider

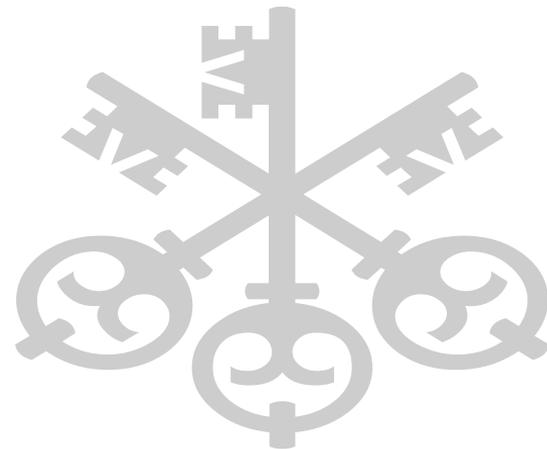
September 27, 2016





"Maximizing the value of your equity plan provider"

Presented by Donald Hairston and Peter Vincent



September 27, 2016

Meeting schedule

Section 1 **T + 2 Settlement**

Section 2 **ESPP Best Practices**

Section 3 **Granting Trends**

Section 4 **Other Considerations**

Section 5 **Maximizing Perceived Value of Equity in a Broader Financial Picture**

Section 1

T + 2 Settlement

North American Migration from T+3 to T+2 Settlement

The US and Canadian securities industries, in cooperation with industry regulators, will shorten the securities settlement cycle from T+3 to T+2 in September 2017

Industry Actions

- Formed Steering Committee to advocate for move to T+2 and working groups to develop requirements and coordinated plan
- Gained regulatory buy-in to migrate to T+2
- Published Implementation Playbook in Q4 2015
- Proposed migration date of September 5, 2017

Overview / Impact

- Impacts settlements for equities, corporate bonds, municipal bonds and UITs
- T+2 recognized as regular way settlement in trade processing systems
- Updated ex-date period calculations, due bill period calculation and cover/protect expiration date
- Documents referring to settlement updated to reflect T+2 as standard

Expected Industry Benefits

- Optimized capital allocation due to reduction in clearing agency funding requirements
- Alignment with European move to T+2 settlement in 2014
- Client funds available one day sooner

Timeline to T+2



How the change to T+2 settlement impacts you and your participants

1. What is impacted

- Stock option exercise
- Long shares sales

2. Process Changes Resulting from T+2

- Shorter review timeframe to confirm transactions
- Timeframe to revise taxes shortened by one day

Current T+3



Future T+2

- | | |
|---|---|
| <ul style="list-style-type: none">• Tax adjustments to provider on T+2 | <ul style="list-style-type: none">• Tax adjustments to provider on T+1 |
|---|---|

Early adoption of tax adjustment process may make sense

- Corporation begins sending changes in shortened window
- Allows for early assessment of impact to mobility and international populations
- No impact to participants until September 2017

3. Reporting Changes Resulting from T + 2

- Reporting finalized one day earlier (TA letter, Transaction Recap, Wire Reports, etc.)
- Take into account shorter settlement when reconciling shares with your Transfer Agent
- Finance/Payroll Department may need to change timing of their account maintenance processes
- Reporting for international partners including:
 - China Safe
 - France
 - Israel

4. Participant impact

- **Payment** to purchase shares (exercise & hold) must be received by T+2
- Since the settlement cycle is shortened by one day, funds from sales will be received **one day earlier**

What you need to do

How your organization should prepare for this industry change

System Level Actions

- Look for automation opportunities (e.g. automate files to and from UBS)
- Increase frequency of files to UBS to ensure data at UBS is current
- Set up additional Web Admin users and functional roles
- Identify and cross-train backups to reduce time loss due to vacation or sickness

Data and Record Accuracy

- Audit tax codes regularly
- Audit terminations and re-hire records regularly
- Update year to date (YTD) information for compensation and taxes paid regularly, particularly before a large event, like lapse/release processing.

Communications

- Communicate to payroll groups and finance teams
- Inform participants of September 2017 change
- In April 2017 begin making tax corrections under T+2 cycle
- On September 5, 2017, UBS along with the industry, adopts T+2

Resources

These industry sites contain in-depth information

Useful Links

- www.ust2.com/

This link is for the North American T+2 Steering Committee. Test Plans, Approach Papers and other useful documents are posted here.

- <http://www.dtcc.com/>

This is the link to DTCC, which includes detailed documentation on technical processes.

- <https://www.sec.gov/>

This link goes to the SEC homepage, which posts related new stories, updates, and timelines.

Section 2

ESPP Best Practices

The NASPP 2014 Domestic Stock Plan Administration Survey

- 52% of companies offer ESPP
- Why ESPP?
 - Promote employee stock ownership

	423 Plans	Non 423 Plans
Most common discount	15%	0% (33%) and 15% (30%)
Most common offering	6 months	1 month
Look-back	63%	33%
Required holding	22%	22%
U.S. participation 50% +	32%	13%
Shares Held >1 Year	67%	N/A

A Quick Brain Dump

- Broad based
- Guaranteed appreciation
 - Right combination of offering period, discount, and look back
- Improve employee motivation/loyalty
 - 48% of ESPP-only "work harder"; 80% want future employers to offer plan
- Engaged employees
 - ESPP-only participants are only slightly less aware of the current stock price than RS/options participants (80% vs. 89%); more likely to check after each purchase period (78% vs. 73%)
- Corporate tax deduction

Maximizing the ESPP

- Aon study found many key trends:
 - Participation is highest with:
 - 6-month offerings (29% participation rate)
 - 15% discount (next highest is 0% discount with match) (31% participation rate)
 - Combination of 6-month offering and 15% discount (36% participation rate)
 - Does anyone hold?
 - 48% sell within 2 years
 - 45% hold beyond 2 years
 - 8% partially sell within 2 years
 - More likely to sell with larger discount or larger contributions
 - Less likely to take out 401(k) loans when company maintains ESPP

Copyright 2016 Aon

Key participant features at providers

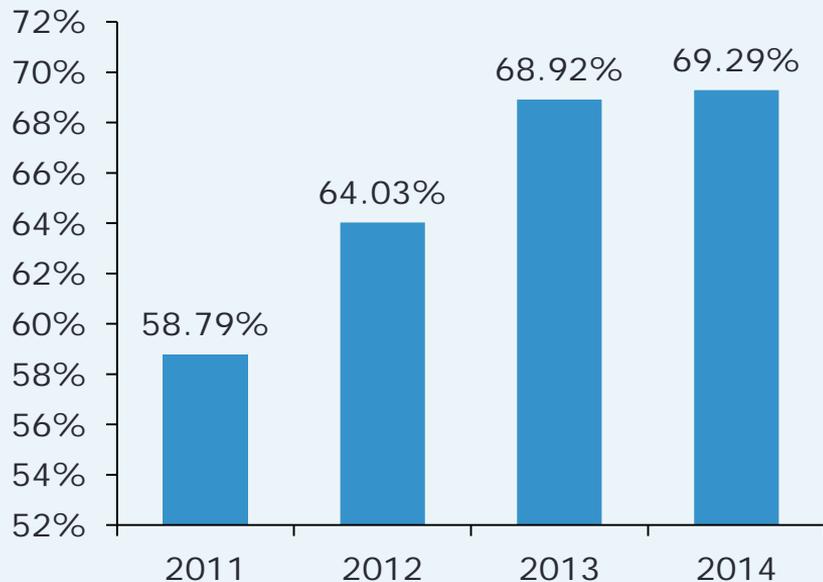
- Support qualified 423 and nonqualified Employee Stock Purchase Plans
- Enroll and set payroll deductions online
 - Capture of contribution elections (percent or dollars)
 - Capture of carry forward elections
 - Capture of stop and withdrawal elections
- Purchased shares in participant accounts on purchase day +1
- Ability to restrict share transfer by purchase lot
- View historical transactions for shares purchased and sold
- Share Lot Tracking and Cost Basis Reporting
- Participant education
- ESPP document library

Section 3

Granting Trends

What's new in performance awards

Prevalence of Performance Equity in the S&P 1500

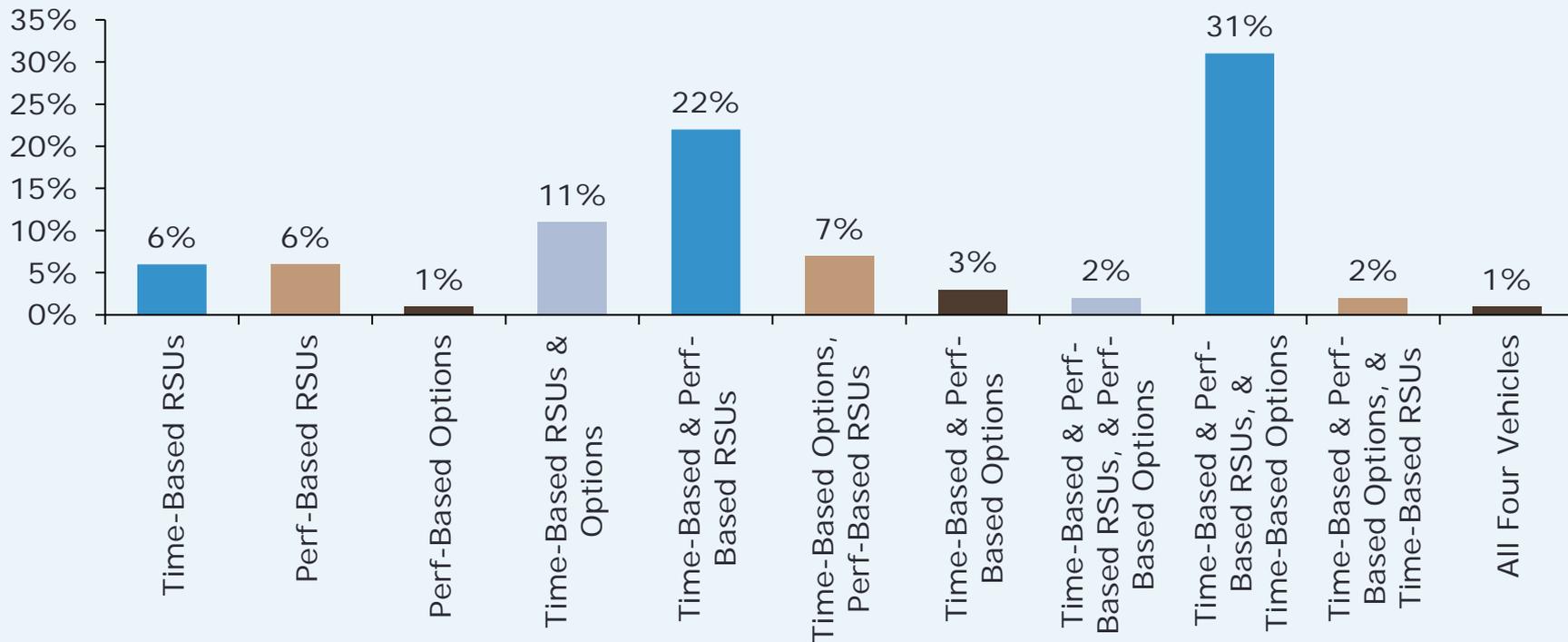


- **In 2014, 69.3% of companies in the S&P 1500 granted performance equity**, which is just a small increase from 68.9% in 2013.
- **Utility companies have historically granted the most performance equity**, although the prevalence has dropped slightly from 95.2% in 2013 to 93.3% in 2014.
- **The largest drop in prevalence occurred in the healthcare sector**, where the number of companies granting performance equity decreased from 69.4% last year to 63.0% in 2014.

Equilar 2015 Trends Report

What's new in performance awards

Use of Specific Vehicle Mixes



Copyright 2016 Aon



What's new in performance awards

- Stock options were the dominant award type until 2009; however, restricted stock has replaced options as the primary vehicle
- Stock options continue to be granted and the population receiving options has stabilized over the past 5 years
- Although the population receiving options is shrinking, substantial value continues to be delivered through options. The use of performance options is also starting to emerge
- Performance awards are the fastest-growing vehicle; however, given the population receiving this award type, the share value delivered through performance awards has grown faster than share of participants

Copyright 2016 Aon

Increasing engagement via communication

- Relative TSR plans are continuing to become more wide spread among REITs, but their complexity leads to unique challenges.
 - Large number of moving parts versus RSUs or options, especially if there are typically three open cycles
 - Quarterly (or annual) status updates are often stale by the time they are communicated to participants
- Employee engagement surveys indicate that companies that have high levels of employee engagement perform better than those that don't
 - Frequent and consistent two-way communication is a key driver of engagement, including compensation and benefits topics
- One solution that many REITs are using is Aon's *PeerTracker* offering
 - Web-based custom site that provides summary and detailed information of where the company's TSR awards stand on a daily basis
 - Includes support for quarterly diluted EPS accounting calculations and a final payout certification
 - See [www. PeerTracker.com](http://www.PeerTracker.com) for more information

Copyright 2016 Aon

Section 4

Other Considerations

FASB amendment ASU 2016 – 9 to ASC 718

- Issued in March 2016 permitting share based withholding up to the maximum statutory tax rate without triggering variable accounting
- Should consider the accounting and IRS withholding implications

Accounting Implications

Determining maximum should be easier;
Getting minimum rates was complicated and time consuming especially globally

Maximums are not appropriate for all employees

Mark to market begins at the maximum rather than the minimum

IRS Tax Withholding Implications

Higher rates coupled with share withholding results in greater use of cash by employers

Mandatory Flat, Optional Flat, Aggregate Method

Employees cannot direct the employer to apply specific withholding rates in general or on a specific payment

- **Other Considerations:** Plan docs, grant agreements, brochures

Cost basis for yearend tax preparation

- Regulation change affecting shares granted or acquired after January 1, 2014

Plans	Cost Basis on Form 1099	Reporting to IRS
Employee Stock Option Plan (ESOP) - Incentive stock option plans (ISO) - Nonqualified stock option plans (NQO)	Grant Price	Yes
Employee Stock Purchase Plan (ESPP) - Qualified plans/Nonqualified plans	Purchase Price	Yes
Stock Appreciation Right (SAR)	Company FMV defined / Market Value at exercise	No
Restricted /Performance Stock Plans	Company FMV defined / Market Value at exercise	No

- **Other Considerations:** Comprehensive tax filing guides, Focused education sessions

Section 5

Maximizing Value of Equity in a Broader Financial Picture

Overview

- 1 Each year companies grant **more than \$100 billion in equity** to employees, however employers typically **wonder if their employees truly value** the awards
- 2 The UBS Participant Voice study continues to explore **opportunities to influence perceived value**
- 3 **Volumes I and II** identified opportunities for **sponsor activities that can help**
- 4 **In Volume III**, UBS looked to determine the **impact broader financial services** support has on **perceived value**
- 5 Today, we will focus on how **UBS can help you drive an increase in perceived value**

**UBS Participant Voice Issue 1 2013, 2 2014, 3 2015*

Several options to drive value perception

The UBS Equity Award Value Index Measures Value Perception of Participants

These are variables measured:

1. Views of equity compensation: way to build wealth, paycheck supplement or lottery ticket
2. Importance in accepting current job
3. Importance in remaining at current job
4. Importance in accumulating overall wealth/savings
5. Tendency to incorporate equity compensation into long-term financial planning

Volume

Participant Voice I

Participant Voice II

Participant Voice III

Perception Levers

Number of vestings

Complexity of the plan

Corporate culture

Communication and Education

Holistic financial planning

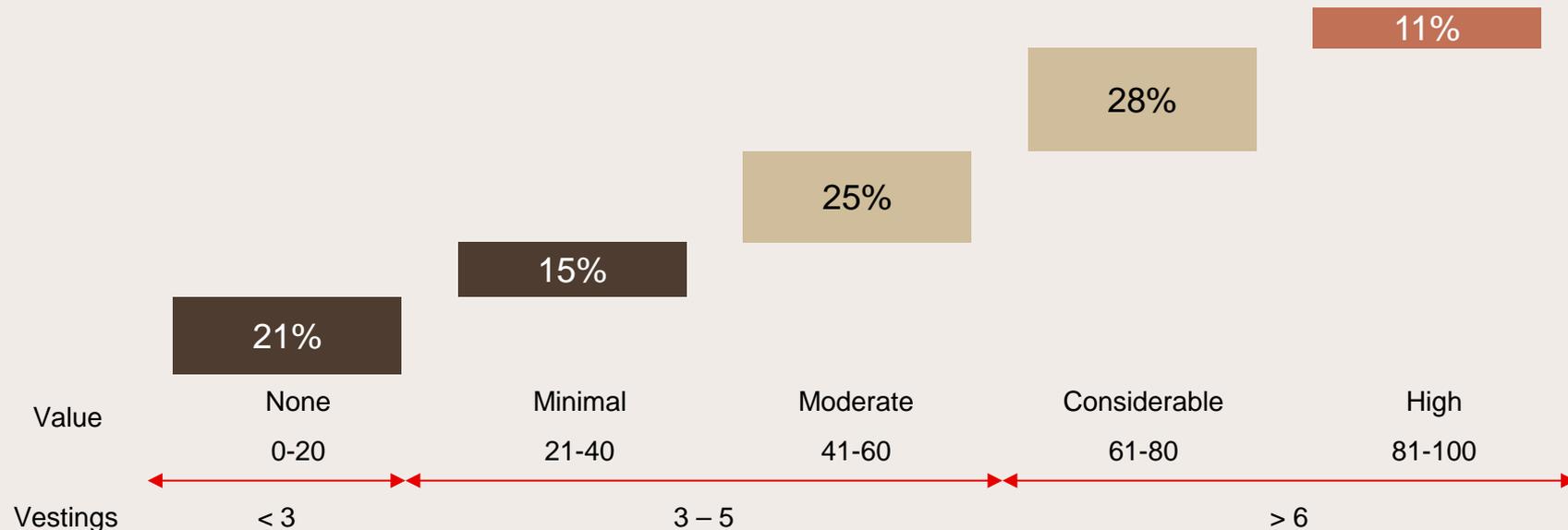
Advice and guidance

Diversification

*UBS Participant Voice Issue 1 2013, 2 2014, 3 2015

Vesting Experience Matters

Year Over Year Plan Participation Drives Improved Perception*



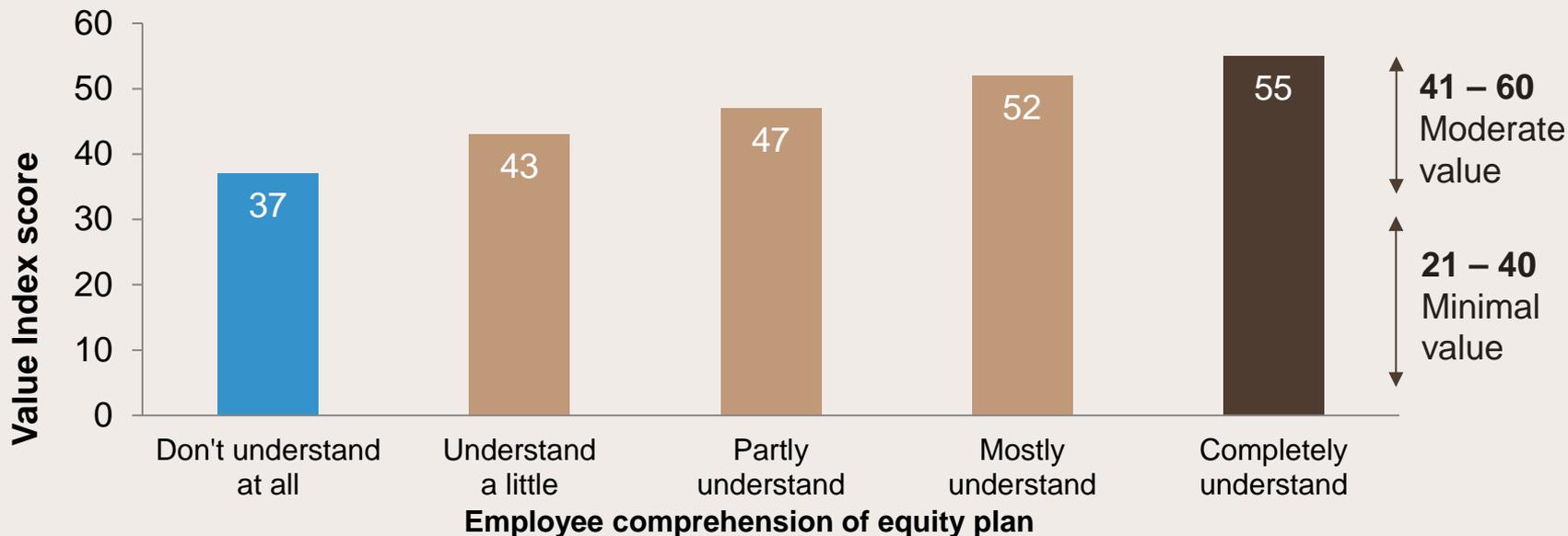
Understanding that we can't control level of experience, how can we accelerate understanding

*UBS Participant Voice Issue 1 2013

Ensure Plans are Easy to Understand

Plan Comprehension Improves Value Perception*

Question: “How well do you feel you understand the details of the equity compensation you receive from your firm?”

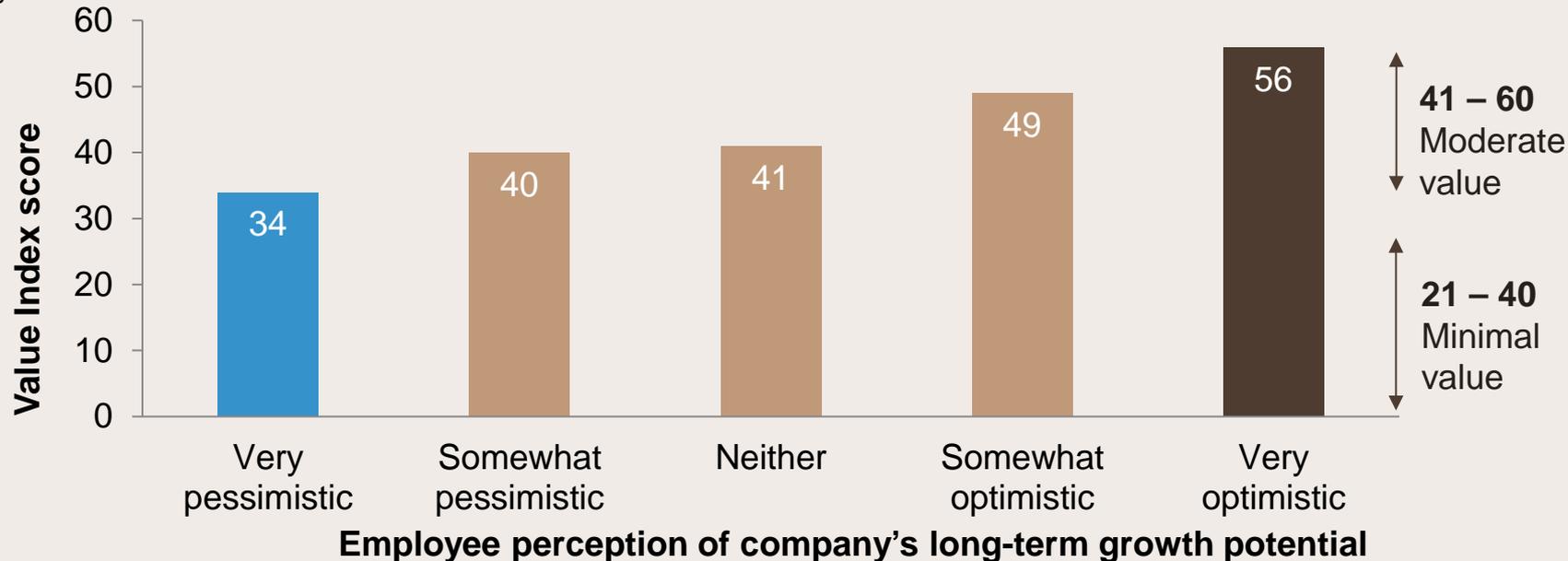


*UBS Participant Voice Issue 2 2014

Drive a Strong Corporate Culture

Optimism about a Company's Future Drives Equity Award Value Perception*

Question: "How would you describe your perception of the long-term growth potential of the company you work for?"

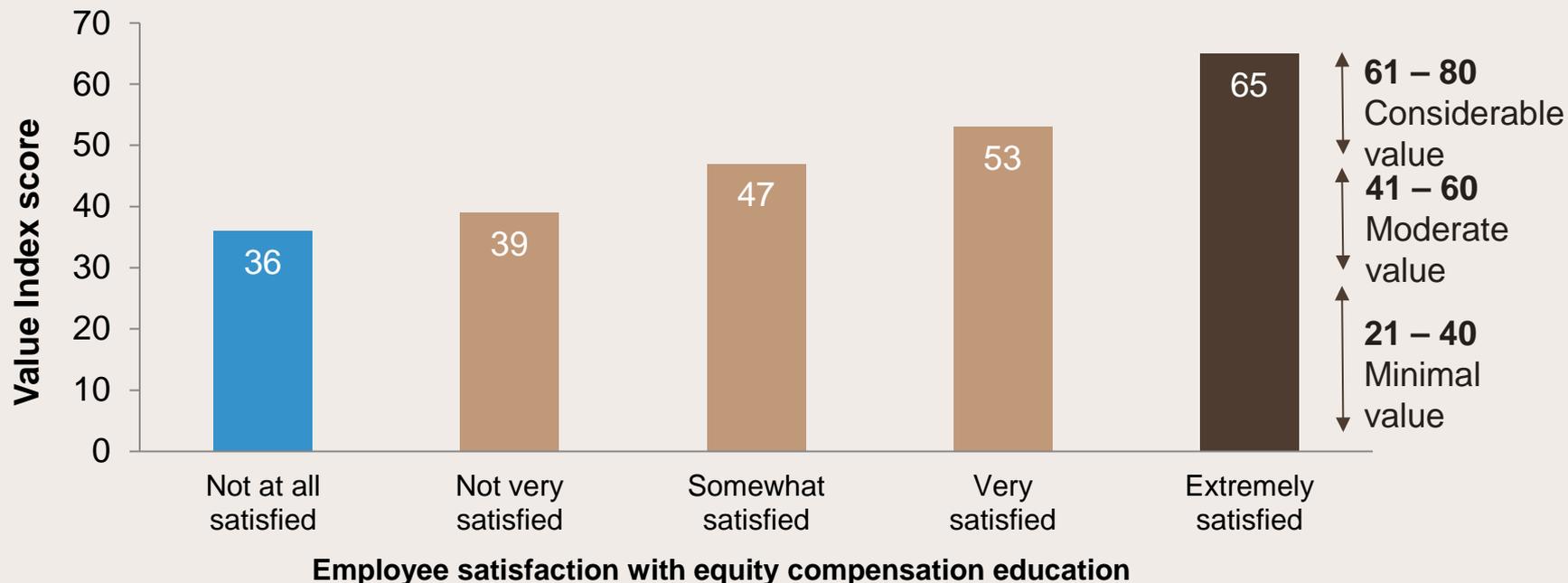


*UBS Participant Voice Issue 2 2014

Provide consistent communication and education

Education About Equity Compensation Drives Equity Award Value Perception*

Question: “How satisfied are you with education provided about equity compensation from the firm?”

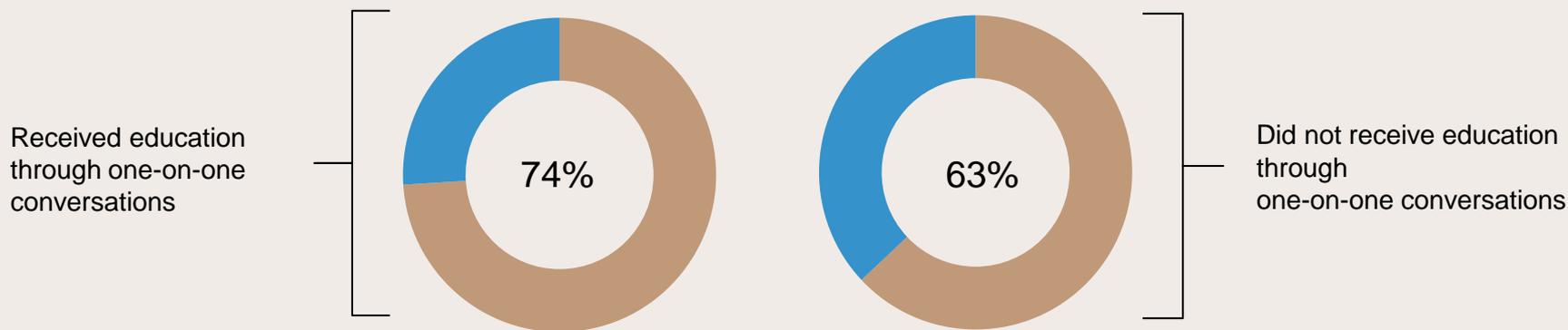


*UBS Participant Voice Issue 2 2014

Provide education and access to personalized advice

Participants who Receive Education Through One-on-one Channels are Most Satisfied*

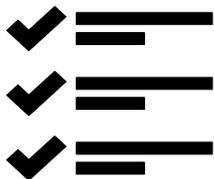
Question: “How satisfied are you with education provided about equity compensation by your company?”
(Percentages show those who responded “extremely” or “very” satisfied.)



*UBS Participant Voice Issue 2 2014

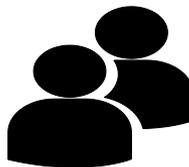
Three steps drive an increase in perceived value

Participants who utilize awards in a holistic wealth management strategy are more satisfied



Planning

- Incorporating equity awards into overall financial planning helps employees value them more



Advice

- The more participants discuss their equity awards with their Financial Advisors, the more value they see in them



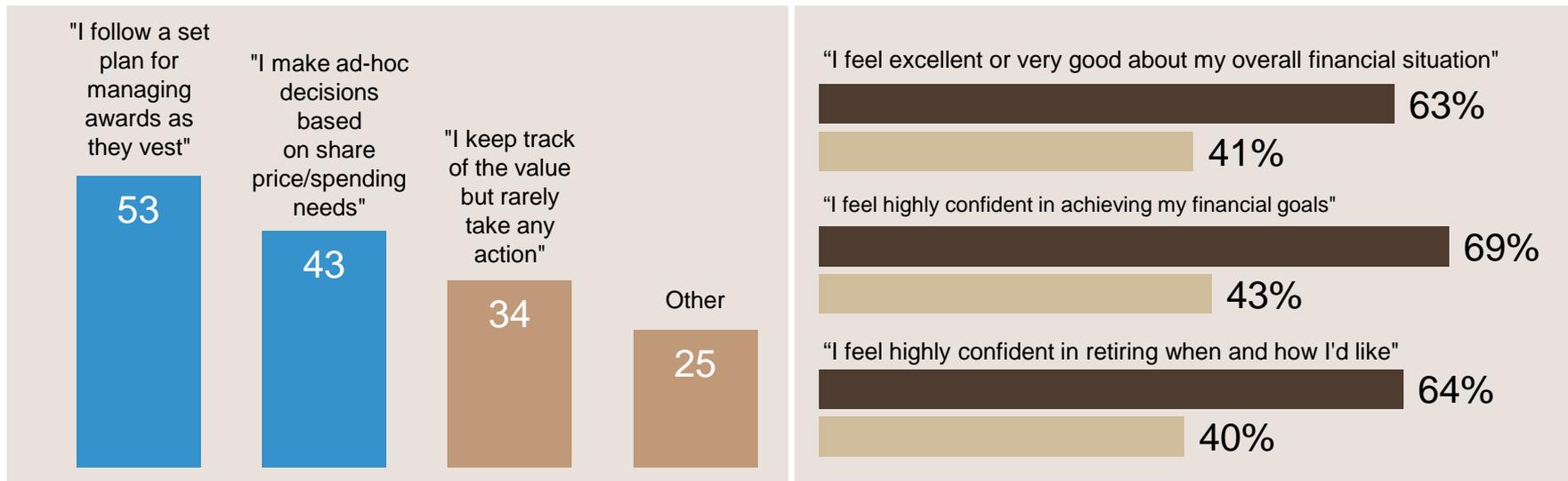
Diversification

- Participants who diversify their equity holdings place significantly more value on their equity awards

Encourage utilization of financial planning

Managing awards in context of a broader financial plan drives satisfaction*

Question: "Which of the following best describes how you make decisions about your equity awards?"

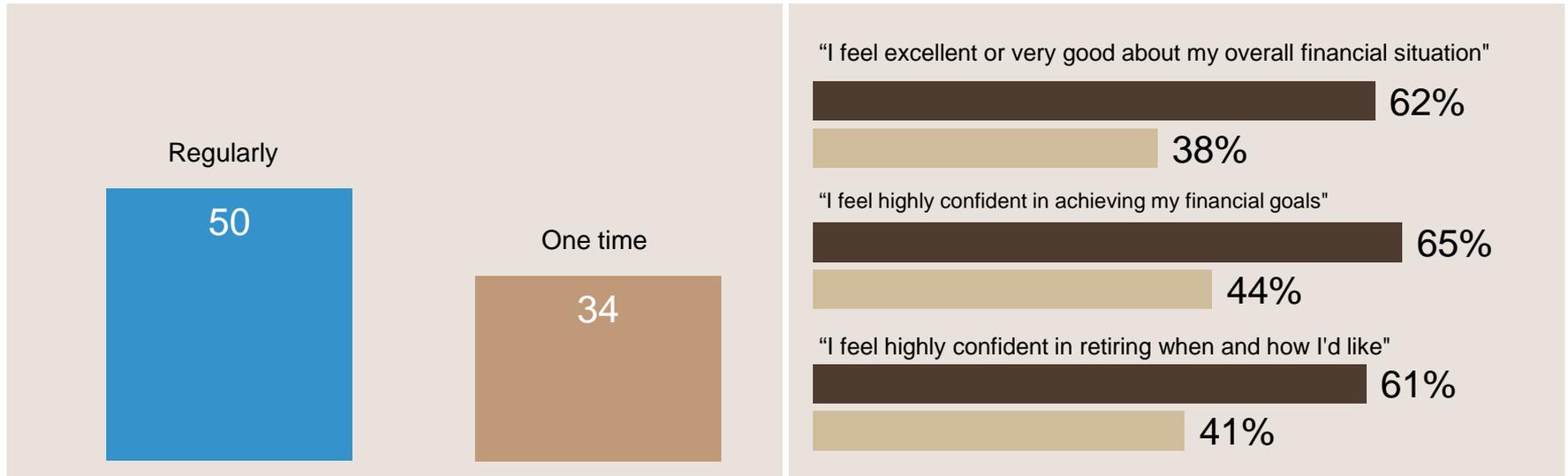


*UBS Participant Voice Issue 3 2015

Provide access to advice and guidance

Education about Equity Compensation Drives Equity Award Value Perception*

Question: "How often do you discuss your company stock holdings with your advisor?"



*UBS Participant Voice Issue 3 2015

Position awards in context of the full financial picture

Education about Equity Compensation Drives Equity Award Value Perception*

Question: “What is the key reason you diversify your company stock into other investments?”

Avoiding concentrated stock

54

Not relying on one company for salary and investments

52

Not confident in company stock

38

Did not diversify

38

Over 50% of plan participants are uncomfortable with the amount of company stock they hold

*UBS Participant Voice Issue 3 2015

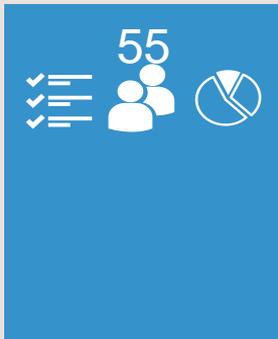


Each step adds to the overall perceived value

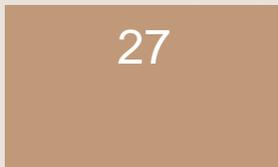
Participants Taking Action in the Context of a Holistic Financial Plan were More Satisfied*

Question: "How well do you feel you understand the details of the equity compensation you receive from your firm?"

Avg. score of participants who take all three steps



Avg. score of participants who don't take any step



"I feel excellent or very good about my overall financial situation"



"I feel highly confident in achieving my financial goals"



"I feel highly confident in retiring when and how I'd like"

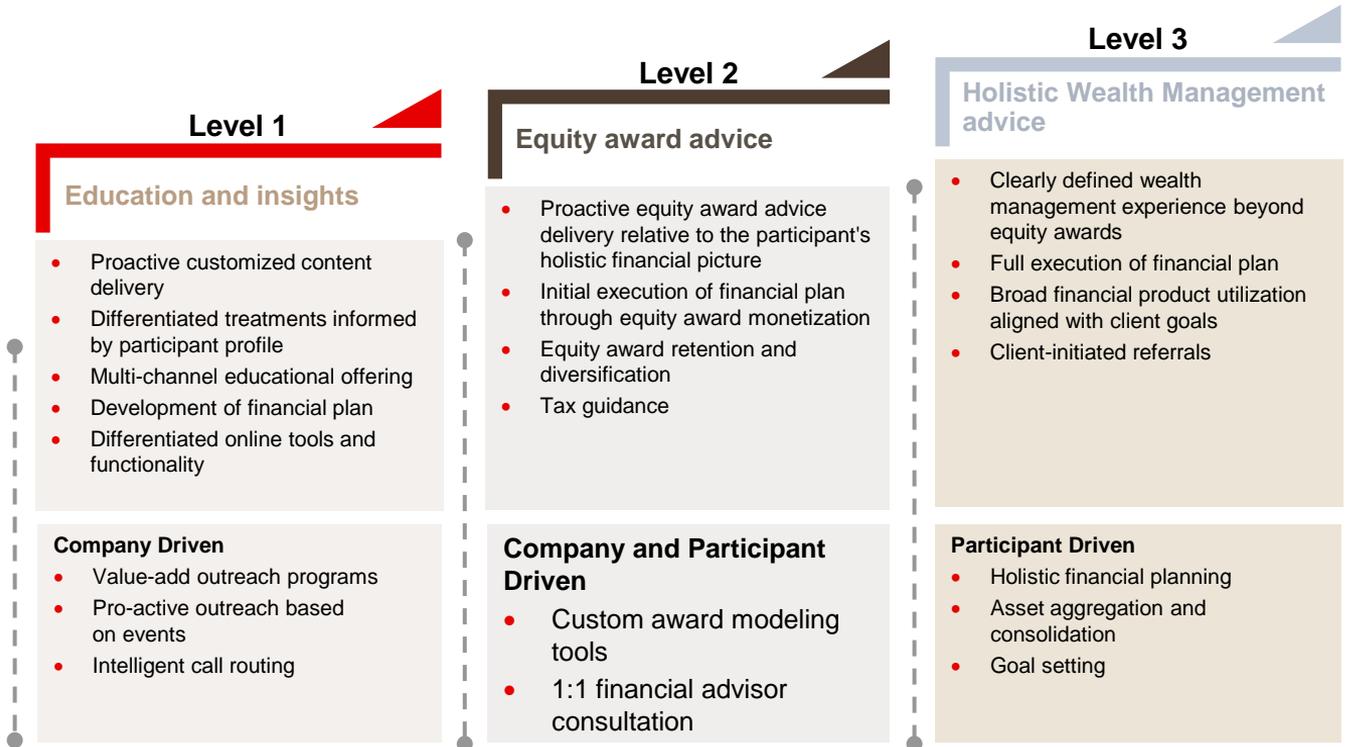


*UBS Participant Voice Issue 3 2015

Adding value through increased participant engagement

Engagement Strategy

- Focus on award transactions and education
- Utilize Participant Voice findings to demonstrate value of initiatives



Q & A

Legal disclosures

Certain UBS Financial Services Inc. products and services require the establishment of a full service account, which would require additional documentation and may not be available in all jurisdictions. Additional fees may apply, depending on the products and services selected. UBS Financial Services Inc. and its Affiliates do not provide tax or legal advice. Not all products and services are available in international jurisdictions. UBS Financial Services Inc. is a subsidiary of UBS Group AG. UBS Financial Services Inc. and its Affiliates do not provide tax or legal advice.

Not all products and services are available in international jurisdictions.

©UBS 2016. The key symbol and UBS Group AG are among the registered and unregistered trademarks of UBS. All rights reserved. UBS Financial Services Inc. is a subsidiary of UBS Group AG. Member FINRA/SIPC.

UBS Financial Services Inc.
ubs.com/fs

