KEY PROXY VOTES FOR 2018 AND CAPITAL MARKETS CHALLENGES

Maureen O’Brien, VP Segal Marco Advisors
Julian Regan, SVP Segal Marco Advisors

May 13, 2018
Dec. 2016 Interpretive Bulletin 2016-01 (IB 2016-01)

- Updated guidance for plan fiduciaries with respect to proxy voting.

- The Department’s longstanding position is that the fiduciary act of managing plan assets which are shares of corporate stock includes decisions on the voting of proxies and other exercises of shareholder rights.

Field Assistance Bulletin No. 2018-01

- The Department's longstanding view is that plan fiduciaries should engage in traditional and customary proxy voting activities in discharging their fiduciary obligation to prudently manage plan investments.

- The Department noted in the IB that there may be circumstances, for example involving significantly indexed portfolios and important corporate governance reform issues, or other environmental or social issues that present significant operational risks and costs to business, and that are clearly connected to long-term value creation for shareholders with respect to which reasonable expenditure of plan assets to more actively engage with company management may be a prudent approach to protecting the value of a plan's investment.
Proxy Voting
Performance Driven

“Corporate Governance is, to a large extent, a set of mechanisms through which outside investors protect themselves against expropriation by the insiders.”

- Study: Investor Protection and Corporate Governance, by professors at Harvard University and University of Chicago

“Good corporate governance won’t just keep your companies out of trouble. Well-governed companies often draw huge investment premiums, get access to cheaper debt, and outperform their peers.”

- International Finance Corporation of the World Bank Group

“We find that firms with stronger shareholder rights had higher firm value, higher profits, higher sales growth, lower capital expenditures, and made fewer corporate acquisitions.”

Harvard/Wharton Study (2003)

“Shareholder activists should be seen as playing a specialized capital market role.”


Companies with the best corporate governance in emerging markets had 8% higher measure of economic value added when compared to the average.

Credit Lyonnais Securities Asia (2001)
NCPIERS’ 10 KEY PROXY VOTES
2018 Shareholder Meetings
Wells Fargo & Company

Proposal: Report on Incentive Pay and Risks of Material Losses
- Proponent: New York State Common Retirement Fund
- Meeting date: April 24
- Vote result: 21.7% in favor
- Segal Marco vote: FOR

Sept. 2016—phony-accounts scandal
- 2M fake accounts
- Company paid $185M in fines
- Claw-backs on CEO ($69M) and former head of community banking ($66M)

July 2017—collateral protection insurance scandal
- 570,000 customers overcharged for auto insurance
- $80 million paid in remediation to customers

“Many witnesses believed that incentive compensation plans overly emphasized sales performance, and many complained to Community Bank leadership that incentive plan goals were too high, too focused on sales and led to bad behavior.” – April 2017 Report
Facebook

Proposal: Content Governance
- Proponent: Office of the Treasurer State of Illinois
- Meeting date: May 31
- Segal Marco vote: FOR

“We didn’t take a broad enough view of our responsibility and that was a big mistake. And it was my mistake. And I’m sorry.”

– Mark Zuckerberg
Proposal: Issue report to shareholders on governance measures Co. has implemented to more effectively monitor and manage financial and reputational risks related to the opioid crisis.

- Proponent: Mercy Health Systems
- Meeting date: October
- Segal Marco vote: FOR

91 Americans deaths a day from Opioid overdose—a majority from prescription painkillers. —Centers for Disease Control ("CDC")

$78.5 billion a year in economic costs from healthcare, criminal justice and lost productivity.—Medical Care Journal

CDC statistics suggest the opioid epidemic caused a drop is the life expectancy rate in America for 2016 and 2015. —The Economist

780 million prescription opioids distributed to West Virginia in six years, enough for about 433 pills for every man, women and child. 1,728 people fatally overdosed. Legal costs: DEA settlements, 100s of lawsuits by counties and cities across the country.
PROPOSAL: EXCLUSION OF LEGAL COSTS FROM EXECUTIVE COMPENSATION

Johnson & Johnson
- Proponent: City of Philadelphia Public Employees Retirement System
- Meeting date: April 26
- Segal Marco vote: FOR

McKesson
- Proponent: AFL-CIO Equity Index Fund
- Meeting date: July
- Segal Marco vote: FOR

Earnings Per Share - Legal Costs
Adjusted Earnings Per Share

Adjusted Earnings Per Share = CEO Incentive Pay
Proposal: Approve $2.6 Billion Stock Option Grant to CEO Elon Musk

- Proponent: Management
- Meeting date: March 21
- Vote result: 80% in favor
- Segal Marco vote: AGAINST

CEO PAY COMPARISON

- CEO Peer Median: $9,310,000
- Average CEO Pay: $13,000,000
- Elon Musk: $2,600,000,000
TJX Companies

- Proposal: Amend Clawback Policy
- Proponent: Trowel Trades S&P 500 Fund
- Meeting date: June 6
- Segal Marco vote: FOR
Marriott International

Proposal: Majority Voting
- Proponent: AFL-CIO Reserve Fund
- Meeting date: May 4
- Segal Marco vote: FOR

<table>
<thead>
<tr>
<th>Ownership - Class A Common Stock</th>
<th>Number of Shares</th>
<th>% of Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>MARRIOTT JOHN WILLARD JR</td>
<td>26,463,983</td>
<td>7.40</td>
</tr>
<tr>
<td>MARRIOTT RICHARD EDWIN</td>
<td>19,776,891</td>
<td>5.53</td>
</tr>
<tr>
<td>The Vanguard Group, Inc.</td>
<td>19,653,793</td>
<td>5.50</td>
</tr>
<tr>
<td>T. Rowe Price Associates, Inc.</td>
<td>17,270,143</td>
<td>4.83</td>
</tr>
<tr>
<td>Capital Research &amp; Management Co. (Global Investors)</td>
<td>14,516,218</td>
<td>4.06</td>
</tr>
<tr>
<td>Fidelity Management &amp; Research Co.</td>
<td>13,626,306</td>
<td>3.81</td>
</tr>
<tr>
<td>BlackRock Fund Advisors</td>
<td>13,148,581</td>
<td>3.68</td>
</tr>
<tr>
<td>SsgA Funds Management, Inc.</td>
<td>13,161,820</td>
<td>3.68</td>
</tr>
<tr>
<td>Jennison Associates LLC</td>
<td>12,149,996</td>
<td>3.40</td>
</tr>
<tr>
<td>MARRIOTT DAVID SHEETS</td>
<td>10,062,590</td>
<td>2.82</td>
</tr>
<tr>
<td>Eagle Capital Management LLC</td>
<td>9,019,820</td>
<td>2.52</td>
</tr>
<tr>
<td>Highfields Capital Management LP</td>
<td>5,000,973</td>
<td>1.40</td>
</tr>
<tr>
<td>Massachusetts Financial Services Co.</td>
<td>3,774,496</td>
<td>1.06</td>
</tr>
<tr>
<td>Northern Trust Investments, Inc.</td>
<td>3,257,863</td>
<td>0.91</td>
</tr>
<tr>
<td>Geode Capital Management LLC</td>
<td>3,221,339</td>
<td>0.90</td>
</tr>
<tr>
<td>TIAA-CREF Investment Management LLC</td>
<td>3,203,318</td>
<td>0.90</td>
</tr>
<tr>
<td>Invesco PowerShares Capital Management LLC</td>
<td>3,070,319</td>
<td>0.86</td>
</tr>
<tr>
<td>Norges Bank Investment Management</td>
<td>2,745,027</td>
<td>0.77</td>
</tr>
<tr>
<td>Merrill Lynch, Pierce, Fenner &amp; Smith, Inc. (Inv Mgmt)</td>
<td>2,427,713</td>
<td>0.68</td>
</tr>
<tr>
<td>RBC Capital Markets LLC (Investment Management)</td>
<td>2,382,644</td>
<td>0.67</td>
</tr>
</tbody>
</table>
Proposal: Adopt Policy to Increase Diversity of Board of Directors

- Proponent: The City of Philadelphia Public Employees Retirement System
- Meeting date: April 25
- Vote result: 25% in favor
- Segal Marco vote: FOR

Feb. 2016 report by the Peterson Institute for International Economics found “Firms with More Women in the C-Suite Are More Profitable.”

Credit Suisse’s 2014 study, “Women’s Positive Impact on Corporate Performance” found “Greater gender diversity in companies’ management coincides with improved corporate financial performance and higher stock market valuations.”

Jan. 2015 study by McKinsey & Company, “Why Diversity Matters,” found companies in the top quartile for gender or racial and ethnic diversity tend to report financial returns above their national industry medians.
Newell Brands, Inc.

- Proposal: Proxy Contest
  - Proponent: Starboard
  - Meeting date: May 15

Starboard Value’s Jeff Smith vies for four board seats on the heels of Carl Icahn’s deal for five board seats.
Capital Market Developments
Capital Markets

U.S. Retirement System

**U.S. Retirement System Asset Growth**
- U.S. retirement system assets increased by $12.9 million or 84% from 2008 to 2017
- Government DB assets (State, Local and Federal) increased by $1.7 trillion or over 39% since 2008
- Despite asset growth, 49% of U.S. private sector employees are not covered by an employer plan.


**U.S. Retirement Assets (Trillions)**

- **Annuities**: 2.2 (2017), 1.2 (2008)
- **Government DB**: 6.0 (2017), 4.3 (2008)
- **Private DB**: 3.1 (2017), 2.6 (2008)
- **DC Plans**: 7.7 (2017), 3.5 (2008)

**Private Sector Worker Employer Retirement Plan Coverage**

- Employer Does Not Offer Plan: 49%
- Employer Offers Plan: 51%

*Source: U.S. Census Bureau (CPS), March 2014 Supplement.

**Retirement Savings Initiative: Secure Choice**
- NCPERS launched Secure Choice Pension Model in 2011; Plan structured as payroll IRA in 2013
- Designed to encourage retirement saving through a public offered to employees of small employers
- As of March 2018, seven states moving toward implementation (OR, IL, CT, MA, CA, MD, NY)

*The goal of the Secure Choice Movement – achieving retirement security for all – remains as vital today as it was in 2011.*
- NCPERS, August 2017

*The takeaway is simple: Good governance drives real results.*
- Pension Trustees: Corporate Governance and the Behavior Gap, C. Merker, PhD, CFA, CFA Institute, August 14, 2017
Retirement System Challenges and Opportunities

- **Funding Levels**
  - Strong returns since ’09; pressure on funded levels

- **Actuarial Assumptions**
  - Evolving economic and demographic inputs

- **Risk Oversight Focus**
  - Risk management framework; tools; measures

- **Capital Markets**
  - Return assumptions; Fed policy; passive management

- **Asset Allocation**
  - Allocations to alternatives add diversification and complexity.

"The Fed is in the midst of trying the hardest trick in its book, which is to raise interest rates without causing a recession."
- Aaron Klein, Brookings Institution, February 6, 2018

"Risk-management practices continue to evolve...this demonstrates that risk management has become more prominent."

![State & Local Pension Fund Assets (Billions)](chart.png)

Source: U.S. Census Bureau
Public Funds
Risk Management Challenges

- Demographic
- Asset Performance
- Actuarial Standards
- Return Assumption
- Stock Market
- Interest Rates
- Inflation Expectations
- Currency Rates
- Compliance / Legal
- Reporting / Disclosure
- Transaction Processing
- Cybersecurity
- Contributions
- Benefit Payments
- Alternative Investments
- Redemption Terms

Public Funds Average Funded Percentage

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Funds</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>Pension Plan A</td>
<td>71.2%</td>
</tr>
<tr>
<td>2016</td>
<td>Pension Plan B</td>
<td>74.7%</td>
</tr>
</tbody>
</table>

Source: NCPERS 2017 Public Retirement Systems Study, January 2018

Projected Cash Flow (Sample)
Elevated equity market valuations
Federal Reserve exit from accommodative monetary policy
Modestly improved global economic outlook
Low yields; elevated interest rate risk
Potential risk related to currency and inflation
Global trade conflict; geopolitical risk.

Capital Market Assumptions

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Expected Return</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Large Cap</td>
<td>7.6%</td>
<td>16.0%</td>
</tr>
<tr>
<td>U.S. Small Cap</td>
<td>9.4%</td>
<td>24.0%</td>
</tr>
<tr>
<td>Int’l Equity (unhedged)</td>
<td>8.9%</td>
<td>20.0%</td>
</tr>
<tr>
<td>Int’l Emerging Market</td>
<td>11.3%</td>
<td>24.0%</td>
</tr>
<tr>
<td>FI – Core</td>
<td>3.2%</td>
<td>5.5%</td>
</tr>
<tr>
<td>FI – High Yield</td>
<td>5.8%</td>
<td>11.0%</td>
</tr>
<tr>
<td>FI – Global</td>
<td>3.2%</td>
<td>7.6%</td>
</tr>
<tr>
<td>FI – Emerging Market</td>
<td>6.1%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Real Estate – Core</td>
<td>6.6%</td>
<td>11.5%</td>
</tr>
</tbody>
</table>

*For illustrative purposes only. Not all inclusive. Expected return is arithmetic.

"Despite the encouraging headline growth figures, the global economy is facing the highest level of risk in years." — The Economist Intelligence Unit, January 2018

"The Fed is in the midst of trying the hardest trick in its book, which is to raise interest rates without causing a recession." - Aaron Klein, Brookings Institution, February 6, 2018
Public Retirement System Risk Exposures

“A cornerstone of successful investment strategy is effective risk management. Enterprise Risk Management (ERM) covers risk in the broadest possible terms, encompassing all forms of risk management activity agency-wide”

— Washington State Investment Board, Enterprise Risk Management
Evolving Risk Exposures
Asset Allocation

**Expected Return**
- 10 Yr. Expected Return: 6.0%
- Annualized Risk: 10.4%
- Sharpe Ratio: 0.33
- 20 Yr. Expected Return: 6.9%

**Diversification**
- 10 Yr. Expected Return: 5.9%
- Annualized Risk: 10.4%
- Sharpe Ratio: 0.37
- 20 Yr. Expected Return: 7.5%

**Efficiency**
- 10 Yr. Expected Return: 6.9%
- Annualized Risk: 11.5%
- Sharpe Ratio: 0.43
- 20 Yr. Expected Return: 7.5%

**Complexity**
- 10 Yr. Expected Return: 6.0%
- Annualized Risk: 10.4%
- Sharpe Ratio: 0.33
- 20 Yr. Expected Return: 6.0%

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"...alternative investments generally have a low correlation with traditional asset classes...Alternative investments may require additional staff expertise, increased due diligence and careful attention to controls." — Government Finance Officers Association

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Asset Allocation & Actuarial Assumption Trends

Public Pension Funds: Average Asset Allocation

- **Equities**: 55.3% (FY 2001) vs. 47.6% (FY 2016)
- **Fixed Income**: 35.1% vs. 23.2%
- **Alternatives / Real Estate**: 7.1% vs. 24.9%
- **Cash/Other**: 2.7% vs. 4.3%

Source: NASRA Public Fund Survey, November 2017; Includes broad asset classes only.

- Over fifteen years, average allocations to equities and fixed income declined by 7.7% and 11.9%, respectively.
- During the same time, combined allocations to alternatives and real estate increased by 17.8%.

NCPERS 2017 Study: Return Assumptions

- **Lowered Return Assumption**: 64% (2017) vs. 39% (2016)
- **Considering Lowering Return Assumption**: 21% (2017) vs. 28% (2016)

Source: 2017 NCPERS Public Retirement Systems Study.

- Institutional investors have reduced assumptions amid challenged in external environment and capital markets.
- Longer-term asset class return assumptions (e.g. 20-years) are generally higher than intermediate term.
The most frequently cited expected net increase to an asset class is private equity (+23%).

The most frequently cited expected net decrease is to active U.S. equities (-18%).

The next most frequently cited net decrease is to U.S. active fixed income (-11%).

Other frequently cited increases include multi-asset strategies (+9%) and emerging markets equities (+8%).

According to separate study, over half of non-corporate plans manage 40% or more of their equities passively.

“Our results suggest, however, that a shift toward alternative equities alone may not signal a riskier investment strategy.”

— Federal Reserve Bank of Kansas City, September 27, 2017
Public Fund Trends
Oversight Practices

Public Fund Oversight Practices

- Public funds continue to adopt practices to strengthen management of market, credit, operational and actuarial risks
- Focus includes continuous improvement to transparency and cost-effectiveness
- In separate 2010 survey, 89% of institutional investors reported hiring chief risk officer (CRO) to centralize oversight
- Adoption of enterprise risk management (ERM) is an emerging practice among large fund that possess resources
- Funds with fewer resources may achieve the equivalent by utilizing a combination of internal and external resources.

<table>
<thead>
<tr>
<th>Practice</th>
<th>2017 Study: Oversight Practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipt of full actuarially determined</td>
<td><a href="#">74%</a></td>
</tr>
<tr>
<td>contribution</td>
<td></td>
</tr>
<tr>
<td>Formal enterprise risk management framework</td>
<td><a href="#">29%</a></td>
</tr>
<tr>
<td>Receipt of annual investment performance</td>
<td><a href="#">63%</a></td>
</tr>
<tr>
<td>evaluation</td>
<td></td>
</tr>
<tr>
<td>Receipt of GFOA Award of Excellence</td>
<td><a href="#">59%</a></td>
</tr>
<tr>
<td>Receipt of unqualified audit opinion</td>
<td><a href="#">90%</a></td>
</tr>
<tr>
<td>Actuarial valuation at least every two years</td>
<td><a href="#">96%</a></td>
</tr>
<tr>
<td>Adoption of fiduciary standards</td>
<td><a href="#">77%</a></td>
</tr>
<tr>
<td>Adoption of adherence to investment policies</td>
<td><a href="#">93%</a></td>
</tr>
</tbody>
</table>

Source: 2017 NCPERS Public Retirement Systems Study.

* Source: 2017 NCPERS Public Retirement Systems Study.
Approximately six in ten pension funds modified policies to apply ESG criteria, expand investments in private/illiquid asset classes and/or enhance their focus on liabilities, among other changes.

Changes to governance practices, including creating/revising risk management documents, are consistent with institutional investor toward adoption of integrated risk management frameworks.

“Looking ahead, 86% of respondents overall expect ESG criteria to play a bigger role in investing in the medium term.” — BlackRock, March 2018
Public Fund Trends
Risk Oversight Framework

- Governance Structure
- Regulatory Framework
- Investment Policy
- Contracts

- Asset/Liability Studies
- Due Diligence Reviews
- Liquidity Tier Analysis
- Cost and Fee Analysis

- Asset Class Exposures
- Standard Deviation
- Credit Rating
- Failed Transactions

- Financial Audit
- Required Reports
- Actuarial Valuation
- Advisors / Managers

“ERM (Enterprise Risk Management) provides a centralized framework for identifying, analyzing, responding to and monitoring both investment and non-investment risks.”
-Rotman International Journal of Pension Management; Spring 2013
Indexed mutual fund assets increased from $55 billion in 1995 to $4 trillion in 2015.

While indexing benefits investors by enabling market exposure at low costs, flows to passive management have raised concerns about unintended impacts to the financial system and corporate governance.

BlackRock, State Street Global Advisors (SSgA) and Vanguard reportedly manage 90% of indexed assets.

Due to concentration of market share among the top three indexers, these firms (the “big three”) are now collectively the largest owners at 40% of U.S. public companies.

"...perhaps we shouldn’t be shocked if an investment method that encourages us to use as little discernment as possible ends up being too good to be true."
Capital Markets
Environmental, Social, Governance (ESG)

Implementation Tools

- Investment Policy
  - Objectives
  - Risk Management
  - Selection Criteria
  - Required Reporting

- Manager Selection
  - Philosophy
  - Process
  - Security Selection
  - Risk Management

- Proxy Voting
  - Proxy Policy
  - Annual Meetings
  - Proposals
  - Reporting

- Corporate Governance
  - Board of Directors
  - Engagement
  - Advocacy
  - Alliances

CFA Institute Survey (Modified)
Do you think analyzing ESG factors can boost returns?

- Somewhat: 37%
- Not on their own: 24%
- It Depends on data: 16%
- No: 15%
- Of Course: 7%

Source: CFA Institute Enterprising Investor, September 1, 2016

Asset Managers Considering ESG Criteria (Trillions)*

- 2016: $8.10
- 2014: $4.80

Key 2018 proxy votes include corporate governance best practices, how companies are responding to financial, legal and reputational risks posed by the opioid crisis and new fronts in the battle with activist investors.

Fiduciaries of plan assets should familiarize themselves with their fund’s proxy voting and assure votes are being cast in their plan participant’s best interest.

Capital market developments include public pensions funds’ adoption of new risk management models, improved portfolio diversification and continued integration of asset and liability management.

Public funds face evolving market, operational, credit and liquidity risks that require new risk frameworks and management approaches, particularly as exposures to alternative investments increase.

Public pension fund opportunities include the practical application of ESG as it moves from an abstract set of concepts to a pragmatic set of tools to help position funds for long-term, risk-adjusted returns.

Public pension funds continue to implement strengthened governance and risk management practices to position their portfolios for long-term risk-adjusted returns through changing markets.
Presenters

**Julian Regan**  
Senior Vice President and  
Public Sector Market Leader  
jregan@segalmarco.com

**Maureen O’Brien**  
Vice President, Corporate  
Governance Director  
mobrien@segalmarco.com

**Expertise**

Mr. Regan joined Segal Marco Advisors in 2009 as part of the firm’s continued commitment to public and multi employer benefit plans. Prior to joining the firm, Mr. Regan served in leadership, investment and risk oversight roles in the private and public sectors. Between 2001 and 2006, Mr. Regan served as Executive Director for the New York State Deferred Compensation Board, where he ran the state’s then $8 billion supplemental retirement plan and administered regulations that governed 250 local government plans. Mr. Regan also served as Vice President, Risk Governance and Strategy for Fidelity Investments, and as Assistant General Manager and Budget Director for the Massachusetts Bay Transportation Authority.

**Professional Background**

From 2005 to 2008, Mr. Regan was a member of the U.S. Internal Revenue Service (IRS) Advisory Committee on Tax Exempt and Government Entities. He is co-author of the National Conference on Public Employee Retirement Systems (NCPERS) Best Governance Practices for Public Retirement Systems, and contributing author to the IFEBP Trustee Handbook, among other publications.

**Education/Professional Designations**

Mr. Regan received his M.B.A and B.S.B.A. from Suffolk University and studied at Georgetown University. Mr. Regan is a 2008 recipient of the IRS TE / GE “Commissioner’s Award” and a 2004 “Plan Sponsor of the Year” award recipient.

**Expertise**

Maureen joined Segal Marco Advisors in 2011 and currently serves as Vice President, Corporate Governance Director were she leads corporate engagements on behalf of SMA’s clients and analyzes proxy voting issues. Maureen’s work in shareholder advocacy began in 2003 as a Research Analyst for the Investor Responsibility Research Center. Since then, she has specialized in engaging companies on behalf of investors. Most recently, Maureen was Head of Engagement at Conflict Risk Network, where she held dialogues with companies operating in Sudan and other conflict zones.

**Professional Background**

Maureen also served as Research Director at the Center for Political Accountability, a non-profit, non-partisan organization, where she promoted transparency in corporate political spending. Maureen co-founded LINC Negotiations, a Washington, D.C.-based consultancy that provides training in negotiation and mediation. In 2015, Maureen was appointed to the Council of Institutional Investors Corporate Governance Advisory Council.

**Education/Professional Designations**

Maureen received her M.A. from American University in Washington, D.C. and her B.A. from the University of Missouri-Columbia.
Appendix
Terms and Definitions*

<table>
<thead>
<tr>
<th><strong>Corporate Governance:</strong></th>
<th>A set of rules and procedures that determines the influence of stockowners in a company and the structure of the board of directors that represents them.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ESG:</strong></td>
<td>Environmental, social and governance factors that may have a material impact on investment performance.</td>
</tr>
<tr>
<td><strong>Retirement Fund Governance:</strong></td>
<td>The structures and relationships that drive retirement fund performance and the system by which the organization is directed and managed.</td>
</tr>
<tr>
<td><strong>Risk:</strong></td>
<td>Risk is the chance of something happening that will have an impact on organizational objectives. It is measured in terms of probability and impact.</td>
</tr>
<tr>
<td><strong>Control:</strong></td>
<td>Any action which reduces the probability of a risk occurring or reduces its impact if it does occur.</td>
</tr>
<tr>
<td><strong>Residual Risk:</strong></td>
<td>The risk that remains after a control has been instituted.</td>
</tr>
<tr>
<td><strong>Reputation Risk:</strong></td>
<td>Risk that the organization’s brand will be diminished. Reputation risk is often the result of risk in other categories. Compliance failures are the biggest source of reputation risk.</td>
</tr>
</tbody>
</table>

Sample definitions. Not all inclusive.