



February 16, 2021

Dr. Risa Lavizzo-Mourey
Chair, Governance and Public Affairs Committee
General Electric Company
Executive Offices
5 Necco Street
Boston, MA 02210

Dear Dr. Lavizzo-Mourey:

In the last few years, General Electric Company (GE) has faced not only a performance crisis, but an operational crisis which has developed as a result of years of poor board oversight. As the chair of the Governance and Public Affairs Committee of the board, we call on you to take the following steps to improve the board's accountability to shareholders:

- Overhaul the Compensation Committee: Directors Thomas Horton, Sebastien Bazin, Francisco D'Souza, Edward Garden, and Paula Reynolds, responsible for diminishing critical performance incentives vital to the company's turnaround, should not be re-nominated for the next term; and,
- Permanently separate the CEO and chairman positions.

Board accountability is critical to restore investor confidence in light of the company's stock returns falls to negative 1.8% over the past 12 months compared to the S&P500's total return of 16%,ⁱ and a litany of allegations related to its questionable accounting practices, all of which were overseen by the company's board. We are also seriously concerned about the Compensation Committee's recent decisions regarding CEO H. Lawrence Culp Jr.'s new employment agreement, which, among other things, stipulated lower stock price appreciation goals than his earlier sign-on equity award in 2018. This decision by the Compensation Committee further eroded shareholders' faith in the board's ability to make competent decisions for GE.

The CtW Investment Group works with pension funds sponsored by unions affiliated with Change to Win, a federation of unions representing nearly 5.5 million members, to enhance long-term shareholder value through active ownership. These funds have over \$250 billion in assets under management and are substantial GE shareholders. We previously engaged with GE in a [letter](#) to the board dated April 15, 2019 regarding the company's capital allocation strategy and recurring issues with its external auditor, KPMG. We also previously called for shareholders to [vote against](#) the reelection of then Audit Committee Chairman Douglas Warner, related to the company's long standing relationship with KPMG in 2013.

Lowering goals for CEO Culp's performance equity diminishes critical performance incentives for turnaround

The Compensation Committee members should not be renominated for election at the upcoming annual meeting because they decided to set lower performance vesting targets for CEO Culp's new equity award as compared to his sign-on equity award granted in December 2018, which was relinquished/canceled. This is not the time to lower, let alone reverse, performance goals for the CEO. The canceled sign-on award was valued by proxy advisory firm Institutional Shareholder Services (ISS) at nearly \$38 million at the time of grant and the original stock price appreciation goal was set at \$24.80 (at target), starting from baseline price of \$12.40;ⁱⁱ meaning that in order to earn the targeted amount of shares, Culp would have needed to double GE's stock price at that time, a laudable, challenging, and acceptable goal. After granting this award, GE's stock price continued to tumble, dipping as low as the mid-\$5 range.

The newly issued award in August 2020 has a significantly higher grant date value (nearly \$60 million at targetⁱⁱⁱ) and, astonishingly, does not even require the CEO to return the stock price back to its previous level at the time of his hiring before receiving a portion of it. For bringing the stock price to approximately \$10 per share over any 30 consecutive trading days, which was recently achieved due to a rebound in GE's stock price, Culp receives \$47 million. Put another way, in exchange for an approximate 20% *decline* in the company's stock price since the CEO's hiring, he will be receiving nearly \$47 million which **is larger than his previous award at target** by approximately \$10 million. In merely 4 months since his new contract, not only did Culp earn the \$47 million, he is on track to earn over \$232 million (the maximum award amount).

Long-term shareholders have yet to benefit from an investment in the company, even with its recent appreciation, General Electric's stock price still has lost over 50% of its value over the past five years, with a \$1,000 investment in the company worth approximately \$467 today. We note that this one time equity award is in addition to the CEO's annual performance equity award which in 2019 was valued at approximately \$15 million.^{iv}

GE should permanently separate its CEO and chairman positions

Given the breadth of high profile issues that GE has endured over the last few years ranging from the aforementioned external audit concerns and its poor compensation oversight to its most recent \$200 million fine by the Securities and Exchange Commission for its questionable accounting tactics,^v we believe that the company is in dire need of an overhaul of its leadership structure. Implementing a permanent separation of the Chairman and CEO positions would not only ensure that the board is providing independent oversight over management, but show commitment to restoring the company's corporate integrity and reputation over the long-term. Last year, 26% of shareholders supported an independent chair proposal at GE's annual meeting, and the proposal received both major proxy advisors' support for the last two years. In its 2020 report, ISS noted that the complexity of the company's organizational structure warranted a separation of the position given the amount of time required to run the company's board as well as the company's operations.^{vi} As GE continues to implement its long term strategic plan, it is essential that the company's CEO and Chairman are able to dedicate enough time and resources to execute the company's recovery.

Please contact my colleague Michael Varner, Director of Executive Compensation Research, at michael.varner@ctwinvestmentgroup.com to arrange a time to discuss these concerns before March 15, 2021.

Sincerely,



Dieter Waizenegger
Executive Director
CtW Investment Group

ⁱ Johnston, M. (2021, January 26). GE Earnings: What Happened. *Investopedia*. Retrieved from <https://www.investopedia.com/ge-q4-2020-earnings-5096400>

ⁱⁱ Institutional Shareholders Services (2020, April 14). *ISS Proxy Analysis & Benchmark Policy Voting Recommendations: General Electric Corporation*.

ⁱⁱⁱ Calculated by multiplying the stock price on the date of grant (8/18/20) by the target number of shares granted (9,295,352)

^{iv} Institutional Shareholders Services (2020, April 14). *ISS Proxy Analysis & Benchmark Policy Voting Recommendations: General Electric Corporation*.

^v Feuer, W. (2020, December 10). General Electric agrees to pay \$200 million SEC fine for misleading investors. *CNBC*. Retrieved from <https://www.cnn.com/2020/12/09/general-electric-pays-200-million-sec-fine-for-misleading-investors.html>

^{vi} Institutional Shareholders Services (2020, April 14). *ISS Proxy Analysis & Benchmark Policy Voting Recommendations: General Electric Corporation*.