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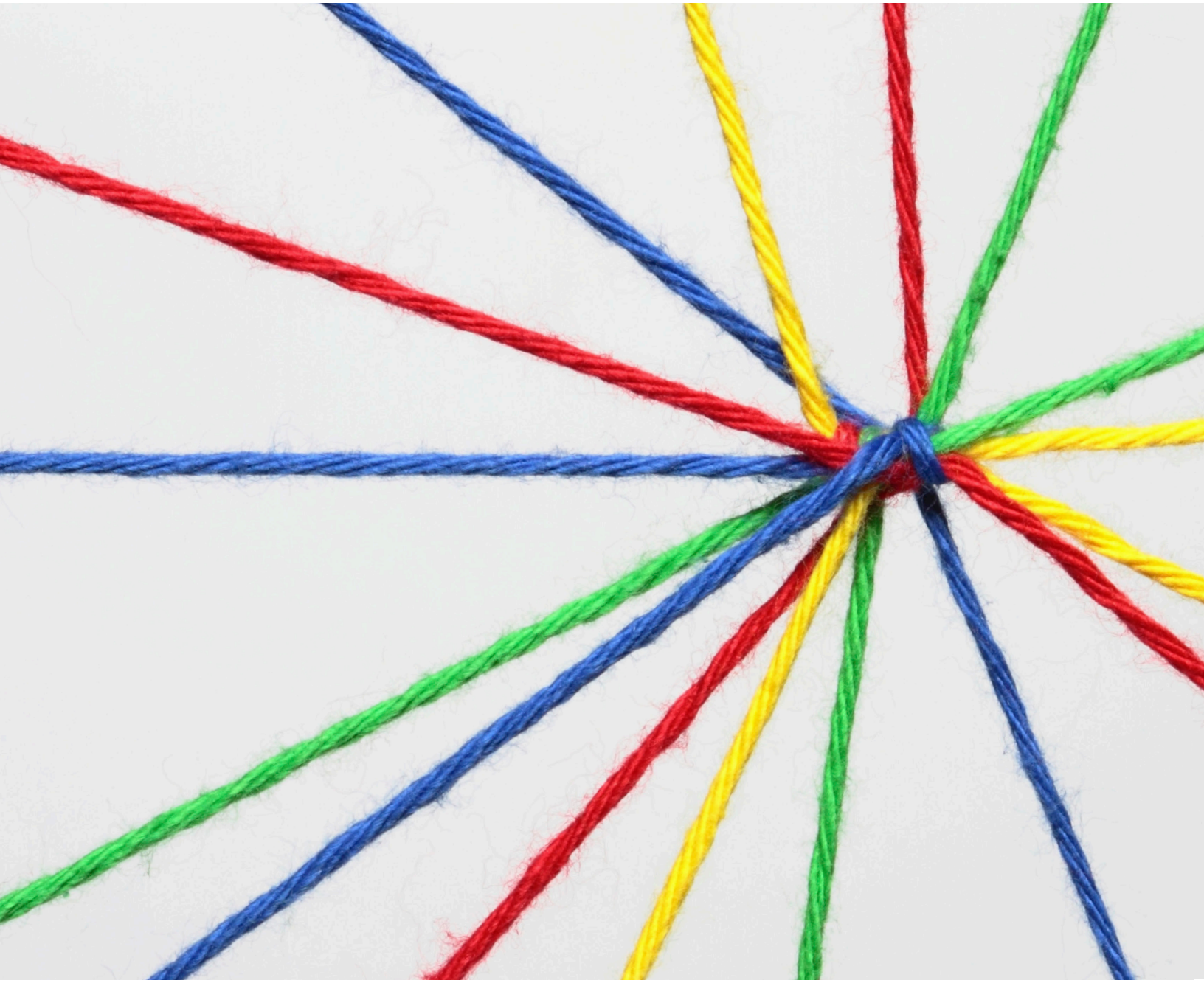
Guidelines for Investor Engagement



THE CONFERENCE BOARD
GOVERNANCE CENTER®

TASK FORCE ON CORPORATE/
INVESTOR ENGAGEMENT

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The Conference Board Governance Center facilitates small groups of prominent senior executives from companies, investors, and advisors for confidential discussions of key issues. We provide:

- a neutral, independent forum for debate and collaboration between issuers and investors;
- custom benchmarking and research;
- access to experts who can help synthesize and analyze the most recent developments in regulation; and
- an opportunity for participants to shape thought leadership on key governance issues.

Founded in 1993, The Governance Center draws upon authoritative research from The Conference Board. It is committed to helping corporations enhance their governance processes, inspire market confidence, and facilitate capital formation: goals that have never been more formidable, or more essential, than they are in today's fraught regulatory environment and globally competitive marketplace.

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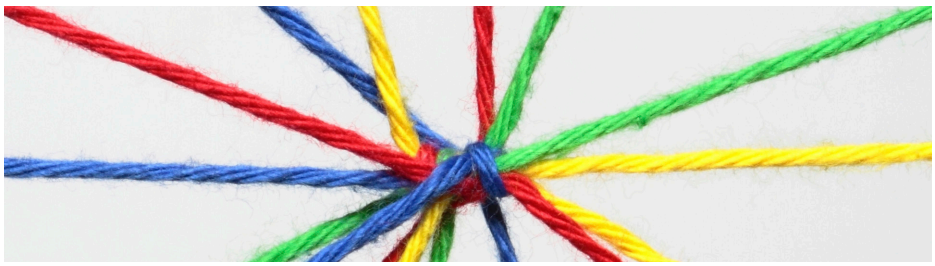
Guidelines for Investor Engagement

RESEARCH REPORT 1541-14-RR

by The Conference Board Governance Center Advisory Board on Corporate/Investor Engagement



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ABOUT THIS REPORT

The Conference Board Governance Center Advisory Board on Corporate/Investor Engagement ("advisory board") is a collaboration of governance experts from public corporations, major institutional investors, academia, and advisors, who collaborated over the course of a year to agree on guidelines to assist companies and their investors in evaluating the costs and benefits of engaging with each other on corporate governance, sustainability, and other matters. These guidelines provide companies and investors information to consider when developing an engagement strategy, including practical tips from advisory board members with respect to why companies and investors engage, the criteria they use to identify those with whom they will engage, the appropriate role of the board and individual directors in engagement, and a framework for deciding who else within the firm is involved in specific engagement.

These guidelines also include examples of communications forms and practices, ways in which both companies and investors can more effectively interact with proxy advisory firms on corporate voting issues, and common steps to prepare for engagement.

ABOUT THE CONFERENCE BOARD GOVERNANCE CENTER ADVISORY BOARD ON CORPORATE/INVESTOR ENGAGEMENT

The task force was assisted in fulfilling its mission by the advisory board—a group of governance experts from public corporations, major institutional investors, advisors, and academia. The advisory board held public forums on corporate/investor engagement and developed a practical set of guidelines for direct engagement between senior management and directors of public corporations and their investors.

The advisory board includes:

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Senior Vice President, Deputy General Counsel and Corporate Secretary, Time Warner Inc.

DONNA F. ANDERSON
Vice President and Head of Global Corporate Governance, T. Rowe Price Group, Inc.

DAVID M. BECKER
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Distinguished Professor of Corporate and Business Law, Cornell University Law School

WILLIAM ULTAN
Senior Managing Director – Corporate Governance, Morrow & Co., LLC

Background

Investors have long called for a more active role in the governance of the public companies in which they invest and have sought to change governance structures and laws to facilitate such a role. In recent years, both companies and investors have seen a shift in traditional governance roles as federal lawmakers and regulators have expanded the investor's role in a company's governance through legislation such as the governance provisions under the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") and Securities and Exchange Commission (SEC) actions that expanded the scope of allowable shareholder proposals.

- Investors have used these new rights, coupled with more traditional proxy mechanisms, to assert greater influence on the governance of public companies, resulting in significant governance changes such as the right to elect directors by majority vote on an annual basis.
- Say-on-pay votes mandated by Dodd-Frank have become a vehicle for investors to express broader concerns about a company relating to governance, performance, and strategy.
- Companies with relatively weak say-on-pay support, or that have not addressed investor proposals or concerns to investors' satisfaction, increasingly face significant opposition to the re-election of board members.
- Investor dissatisfaction with company performance or strategy has had significant repercussions for companies and their directors in special situations such as proxy contests by dissident hedge fund investors.

These changes affecting governance of public companies come in the broader context of a changing investor and shareholder activist base. In the early 1950s, institutional investors held less than 10 percent of the stock of the largest 1,000 U.S. public companies. Institutional investors now account for more than 70 percent of the stock of the largest 1,000 U.S. public companies and 50 percent of all public companies, making institutions the dominant investors in U.S. public companies.

Institutional investors are not monolithic. They represent a wide variety of investment goals and objectives and use different means of achieving them. Some types of institutional investors are more proactive than others in seeking governance changes. In addition, a relatively small number of individual investors are also frequent advocates of corporate governance changes. During the 2006-2013 period, an average of 33 percent of shareholder proposals submitted to Fortune 250 companies were sponsored by labor-affiliated investors, 26 percent by corporate gadflies, 25 percent by religious-affiliated, social-investing, and public policy investors, 15 percent by other individual investors, and 1 percent by other institutional investors.[1]

In addition to these traditional governance activists, hedge fund activism has emerged and has relied on more aggressive forms of shareholder pressure. Activist hedge fund campaigns generally seek to effect significant change in a company's strategic direction through a change in management (such as replacement of a company's CEO or members of the board), a change in financial structure (such as share buybacks or dividends or increased company leverage), or a change in ongoing company operations (such as transactions involving asset sales, spin-offs, or business combinations with strategic or private equity buyers).

Activist hedge fund activity has increased significantly over the last decade. Between 1994 and 2000, activist hedge funds' public filings reported 757 campaigns to modify strategic decisions by management. Between 2001 and 2007, 1,283 campaigns were reported.[2] In 2012, 241 activist campaigns were launched, up from 187 in 2009.[3]

One consequence of the growth of institutional investor interest in effecting governance changes at their portfolio companies is that a greater percentage—and a greater variety—of investors participate in proposing, evaluating, and supporting (or voting against) shareholder campaigns for company change.

These changes have given rise to a greater need for companies and investors to engage with one another on governance matters.

What Is Engagement?

In its broadest sense, investor engagement is any communication between a company and its investors.[4] Defined in this way, public companies have long "engaged" with existing and potential investors, in large part through public disclosures and investor relations efforts. These communications serve many purposes, including attracting new capital, increasing liquidity for company stock, and enhancing transparency of information regarding company performance and operations.

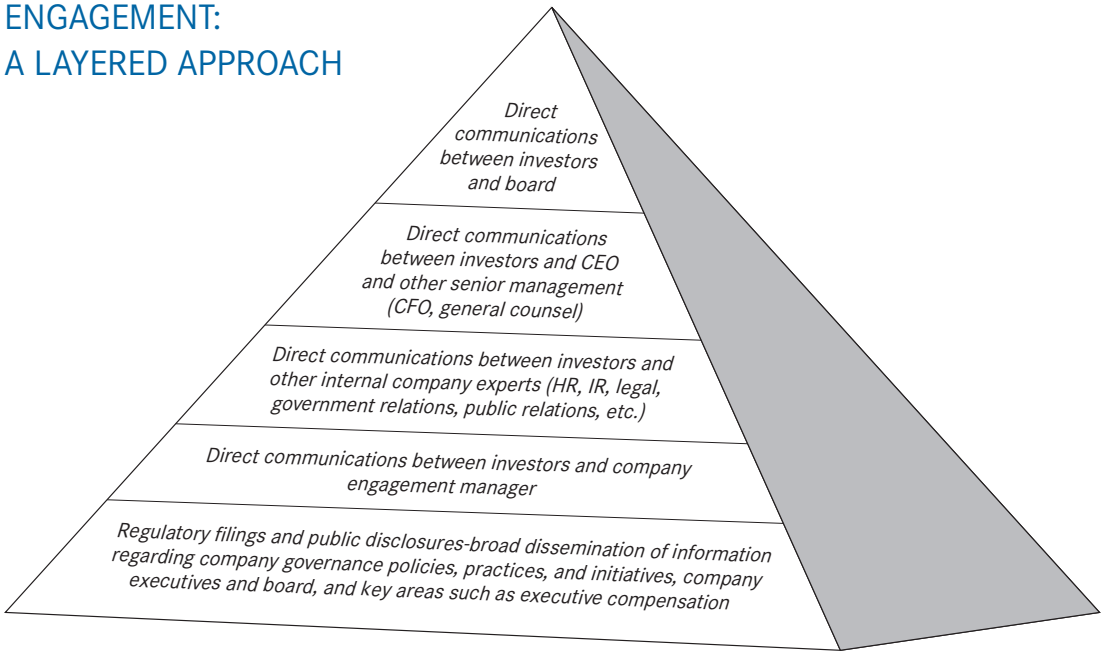
The focus of these guidelines is narrower: direct communications between a public company and its institutional investors regarding corporate governance and related areas such as executive compensation, risk management, succession planning, sustainability of the enterprise, and similar matters. The focus on institutional investors is due to the fact that they are now the dominant investors in U.S. public companies.

When compared to the longstanding history of disclosure mandated by state and federal law, the era of more direct and less formal communications between companies and investors is still in early stages. The advisory board expects that these communications will evolve over time to meet the diverse and changing needs of companies and investors, as common ground is attained and new issues emerge.

Both companies and investors have a variety of means to communicate with one another, which are described in more detail below. Companies have a wealth of guidance about communicating with investors through public disclosures and filings. These guidelines do not address compliance with various disclosure and filing requirements, but instead provide practical guidance on direct communications such as calls and in-person meetings.[5]

As the pyramid on page 8 indicates, direct engagement is a component of an overall engagement strategy that includes, at its base, public disclosures and broad dissemination of company information to the market, followed by direct communication between investors and company engagement managers. At the top of the pyramid is direct communication between investors and directors of public companies. Such direct communication is not the routine engagement model for company and investor engagement in the United States, but it is an aspect of engagement that institutional investors expect during special circumstances or relating to specific governance or other matters where they may deem interaction with management to be insufficient or inappropriate.

ENGAGEMENT: A LAYERED APPROACH



A company's overall engagement strategy runs the gamut from broad and impersonal dissemination of legal and policy information to direct interaction between investors and the board.

Routine communications form the basis of overall engagement (and the base of the illustrative pyramid) while direct communication between the board and investors (the tip of the pyramid) is generally warranted only by special circumstances or issues that cannot be resolved through other means.

Why Engage?

Direct engagement on corporate governance matters benefits companies and their investors.

For both investors and companies, a well-executed engagement strategy can:

- build relationships between management and directors at public companies, and portfolio managers and governance professionals at institutional investment firms;
- provide a better understanding of investor and corporate perspectives on governance issues of mutual interest and concern;
- reduce the friction that can arise when differing perspectives and constituencies are not fully understood;
- serve as a basis for constructive dialogue on specific issues such as executive compensation, company governance structures, and shareholder proposals; and
- enable companies and investors to hear viewpoints that can lead to improved company performance or improved understanding of company performance.

For companies, a well-executed engagement strategy can provide:

- information and perspectives that can be useful data points for the board and management in making decisions about the company's governance;
- important feedback and early warning of potential issues;
- increased understanding of investor voting policies and procedures and how best to engage with investors when issues arise;
- increased support for company strategy, management, and the board of directors;
- an opportunity to explain the company's operating environment, competitive position, and industry fundamentals that may merit individual analysis in pay-for-performance evaluations, shareholder proposals, and other voting matters;
- increased trust, which can be critical in times of company stress; and
- the difference between succeeding and failing in a close situation.

> A strong relationship with investors can be the difference between success and failure in a close situation. Like all relationships, this takes time, effort, and mutual respect.
>
> **Lydia Beebe** corporate secretary and chief governance officer, Chevron Corporation

For investors, a well-executed engagement strategy can provide:

- a deeper understanding of the company and its strategy;
- a better ability to judge the quality of senior management and the board;
- insight into whether the company honors its stated governance principles;
- a stronger foundation for analyzing specific company governance issues;
- an opportunity to express the investor's perspective on the company's governance policies and practices and provide influence on policy changes when needed; and
- an enhanced ability to devote internal governance resources in the most cost-effective manner.

> Shareholder outreach is a cornerstone of our governance profile at Pfizer. For years, we have engaged regularly with our investors around the world to gain valuable insights into the governance issues they care most about. We are always looking to seek a collaborative and mutually beneficial approach to issues of importance to investors and our business. Simply put, investors help us maintain our governance practices as industry leading.
>
> **Matthew Lepore** former corporate secretary and chief governance counsel, Pfizer Inc., currently senior vice president and general counsel, BASF Corporation

Engagement Strategy

Investors and companies alike are seeking ways to engage with one another to find mutually acceptable solutions to issues and concerns, rather than defaulting immediately to proxy-based mechanisms such as shareholder proposals or director election contests. Beyond the shared goal of solving problems, however, the style and value of engagement differs from firm to firm.

The advisory board believes that the most effective practice for each company and investor is to consider the benefits and costs of engagement and to pursue an engagement strategy that fits the firm's specific objectives. Indeed, an examination of the appropriate engagement strategy for a particular company or investor may result in a decision not to engage directly in certain circumstances. Moreover, the appropriate engagement strategy for both companies and investors is situation dependent, based on each company's and investor's objectives and resources, and should be reviewed periodically as circumstances change.

The following section outlines factors for companies and investors to consider in deciding whether to engage. If a company or investor decides to engage, several of these factors are a starting point for developing an engagement strategy.

Considerations for Company Engagement Strategies

In deciding on an appropriate engagement strategy, companies may wish to consider:

- **The objectives of the strategy, such as:**
  - building relationships with investors;
  - gaining information and insights from investors to assist the company in making governance decisions;
  - gaining feedback from investors and early warning of potential governance issues;
  - building confidence in the board's oversight of company management;
  - winning support for executive compensation, director elections, and other company positions; and
  - providing information to assist investors in making decisions on governance matters with respect to the company.

- **Where the company is in its evolution**

  A company taken public by a small handful of investors who appointed the board members and approved the company's governance structure may require little in the way of developing a corporate governance engagement strategy. The company may wish to consider re-examining its existing strategy and its governance practices and policies as the initial investors liquidate their positions over time and new investors emerge. Some investors believe governance structures set up to enhance the rights of company founders may hinder the engagement process as the company matures.

  On the other hand, a Fortune 100 company in a mature business with widely held stock will likely want to engage with its investors regarding say on pay and a variety of governance practices and may need to be prepared to dedicate significant resources to investor engagement.

Some people believe "getting their way" or "making their case" is effective engagement Real engagement involves listening. Companies and investors bring great insights and different perspectives that are accessible only by actively listening.

Paul Washington senior vice president, deputy general counsel and corporate secretary, Time Warner Inc.

- **Whether proactive direct engagement is a good use of limited resources**

  A small company with limited resources may decide that it does not have sufficient resources to engage proactively with investors on governance matters. Absent a history or risk of investor activism on governance matters, such a strategy may pose relatively little risk if the company has no say-on-pay issues, a governance structure consistent with generally accepted governance practices, and good financial performance relative to its peers. Even under these circumstances, it would generally be advisable for companies to engage with investors who communicate with respect to governance matters and to consider the other factors described below in making a decision about engagement strategy.

- **Potential risk of activist intervention**

  If a company has experienced long-term financial underperformance, particularly relative to its industry peers, it would be advisable to dedicate resources to evaluate the company's corporate governance profile and the profiles of its investors. A company at risk of an activist investor campaign may wish to consider taking a number of steps, including the following, to plan its potential response:

  – Identify and monitor the spectrum of high-profile governance issues that may be used by an activist to launch a campaign against the company.

  – Address some or all of those governance issues in order to reduce or remove the potential attention they might otherwise command.

  – Assess the qualifications of its directors from an investor's viewpoint to determine whether the matrix of skills and experience warrants attention.

  – Actively monitor stock activity to determine if activist investors have been accumulating shares.

  – Evaluate the company's engagement strategy to ensure it is effective in developing and maintaining good relationships with major investors.

Direct engagement by one or more members of the board of directors is preferred by many institutional investors. Such interaction, especially with members of the boards of smaller and middle-sized companies, can be invaluable and may lead to a higher quality dialogue. As smaller companies often have smaller boards, individual directors may have particular insights into company strategy, compensation structures, and other governance idiosyncrasies.

Mike McCauley senior officer, investment programs and governance, Florida State Board of Administration

- **The company's investor base**

  Because investors are highly diverse in their investment approaches and activism profiles, approaches to engagement often vary based on the type of investors holding stock in the company and the type of investor involved in a particular issue, whether activist individuals, socially responsible investors, mutual and pension funds, hedge funds, etc. In deciding whether to engage, companies should consider:

  - portion of company stock held by institutional investors (generally the higher the portion, the more important an engagement strategy would be);
  - the fact that individual investors typically vote at rates far below that of institutional investors (roughly 30 percent voted in 2013, as opposed to an average 90 percent of institutional investors); and
  - history of activism by investors, including individual investors.

- **The company's history with its investors**

  A company's past record of weak support from investors is often an indication of a need for increased governance engagement. Situations which may indicate a need for increased engagement include the following:

  - The company has not implemented (or could be perceived as not having taken action on) an investor proposal that received majority investor support of either votes cast or shares outstanding or a close supporting vote.
  - The company has had say-on-pay support of less than 70 percent.
  - The company has a majority voting provision but has retained directors who did not receive a majority of votes cast.
  - One or more of the company's directors received support of less than 70 percent during the last election.[6]

  On the other hand, even with weak support from investors, a company with dual class stock, a controlling shareholder, or a handful of founding investors is less likely to need a resource-intensive investor engagement strategy.

- **High-profile issues involving the company or its industry**

  Some companies have a profile disproportionate to their size due to brand recognition, company or industry crises, or previous high-profile governance issues. Such companies may need to devote more resources to investor engagement as well as to compliance and legal issues, regardless of their size.

- **Evolving governance expectations of investor base**

  There may be periods when investor expectations regarding company governance practices are in flux or evolving. Companies affected by these changing expectations may find it useful to actively engage with investors to assess whether governance policy or strategy changes are appropriate.

Considerations for Investor Engagement

In deciding on an appropriate engagement strategy, investors may wish to consider:

- **Diversity among institutional investors and individual firm strategy**

  Despite the large percentage of public company stock held in pension and mutual funds, these two types of holders reflect a wide diversity of investment goals and objectives, and use different means to achieve them. As a result, there is no one model engagement strategy that is appropriate for all investors or in all circumstances. Some investors may find that, given the costs and resources required, direct engagement with companies is in the best interests of the customers or beneficiaries of their fund only on significant issues. Likewise, some may conclude that a more robust engagement program is in the best interests of customers or beneficiaries. Still others may conclude that engagement is not in the interests of customers or beneficiaries, and abstain from engagement altogether.

- **Investor's view of the role of corporate governance and engagement in creating value for its own clients or fund**

  Many institutional investors are long-term holders of equity in public companies and believe that proper public company corporate governance is an essential component of improving company value over the long term. Such investors are more likely to decide that a very robust engagement strategy is appropriate. Hedge fund investors may be medium-term holders with an investment strategy that also leads the investor to conclude a robust engagement strategy is appropriate. Other long or medium-term investors may believe there are too few benefits to their performance to justify devoting significant resources to corporate governance. Still other investors, such as short-term holders of equity, may determine that their holding period is too brief to have any meaningful opinion on corporate governance or proxy matters being considered in a vote. Each investor should consider how an engagement strategy fits into its overall investment strategy.

- **Legal requirements for voting on corporate election matters**

  Mutual funds hire investment advisers to manage their funds' day-to-day investment decisions. As a legal matter, an investment adviser owes fiduciary duties of care, loyalty, and good faith to the mutual fund.[7] Today, the proper exercise of an investment adviser's fiduciary duties includes diligently considering whether to exercise its right to vote on behalf of its institutional client.[8] This does not require that the investment adviser actually vote (if, for example, the adviser determines that the cost of voting the proxy exceeds the expected benefit to the mutual fund), but does involve a duty to exercise care in determining whether to vote.[9]

  Similar to mutual funds, pension fund managers subject to ERISA have a fiduciary duty to determine whether and how to vote the shares in which they have invested. In 1988, the U.S. Department of Labor issued an advisory opinion concluding that the right to vote shares was a "plan asset" to which the duty to act in the best interests of its plan participants applies.[10]

  Whether or not there is a legal requirement to vote, most institutional investors do vote.[11]

  Investors who decide to vote on most matters should consider how engagement may improve the quality of their voting decisions and allow them to better satisfy their responsibilities with respect to voting.

- **Screening criteria**

  Investors typically have an engagement strategy with internal guidelines or screening criteria to efficiently use limited resources. Criteria generally include:

  – Ability to influence outcome

    Many investors choose to focus resources where they consider their influence to be most effective and limit the resources spent on companies where they have less ability to affect governance practices, as may be the case with companies controlled by a single investor or small group of investors.

  – Value at risk

    Investors may choose to focus their engagement on companies that represent significant value in their portfolio or those that might cause the investor reputational harm.

  – Degree of importance of company governance issues

    Investors may decide that certain issues merit engagement, regardless of company size or company value in the investor portfolio (such as a particular governance practice that is key to the investor, or an ongoing governance issue that the company fails to address despite repeated requests from a significant number of its investors).

  – Investor governance philosophy

    Investors may decide certain governance issues merit engagement because they are of particular significance to the investor.

  – Portfolio manager view

    Portfolio managers often provide input on whether the investor should engage with a company on a particular governance issue and on voting decisions.

- **Investor disclosure considerations**

  Engagement is more efficient if investors disclose:

  - governance principles and/or the associated voting policies on their websites so that companies can consider these perspectives when evaluating potential issues to be addressed;[12]
  - engagement policies, including whether the investor chooses not to vote or otherwise engage on governance issues or if it limits engagement with companies based on the issues involved, the size of its investment, or other considerations;
  - investor decisions or obligations to outsource voting decisions or follow the recommendations of a third party; and
  - voting positions or decisions on specific issues.[13]

- **In the context of a specific company engagement:**
  - disclose to the company the investor's current ownership in the company when engaging with the company;
  - during the proxy season, disclose to a company seeking to engage whether the investor has retained voting rights for that company, as, for example, in the case of share lending; and
  - disclose whether the investor has delegated its voting decisions to another party and the identity of the third party or parties to whom voting authority has been delegated.

- **Shareholder proposals**

  Formal requests by investors to include a proposal for vote at a company's annual meeting are a form of communicating an investor's concern or view regarding a particular practice.

  Many institutional investors view shareholder proposals as a last resort to be used only if other forms of engagement with a company fail. A smaller group of institutional investors use shareholder proposals as the primary means to engage with companies on governance issues or investor rights.

  If a proposal is received without prior communication or warning, companies often view the proposal negatively and conclude the proponent is unwilling to have discussions or compromise, which can reduce the likelihood of a positive engagement. To avoid this unintended outcome and encourage more productive engagement before a company's flexibility in responding is constrained by the SEC's no-action request filing deadlines, it is helpful for investors to communicate with a company before submitting a formal proposal and file the proposal well before the company's deadline.

  Even if a company receives a shareholder proposal without warning, the company should contact the proponent to discuss the proposal unless past experience indicates that such contact would not be useful.

  Investor support for a shareholder proposal is most frequently based on the investor's own guidelines and analysis, rather than the identity, size, or nature of the proponent. Companies cannot safely conclude that a proposal will not succeed merely because of the form of the proposal or the lack of notice of the proposal, or because the proponent is a frequent proponent of shareholder proposals, is not well known, or has a minimal stake in the company. Companies should become familiar with their investors' positions on shareholder proposals.

Who Should Engage

The following section provides information about criteria commonly used to decide who should be involved in engagement and the role of proxy advisors in this process.

Company and Investor Practices

COMPANIES

Companies may wish to consider the practices of many larger companies in determining which investors to select for active engagement. Most of these companies engage in some form with all investors who reach out to the company with questions or feedback regarding the company's governance practices. Very few, if any, widely held companies, however, have the resources to engage all of their institutional investors on a regular basis. As a result, many companies choose to engage with a subset of investors that meet one or more criteria. They include:

- **Size:** Some companies proactively engage with their top 10 or 20 investors or investors representing an aggregate percentage of the company's equity. The percentage is often determined by reference to how concentrated the company's stock is held, i.e., if a significant percentage of the stock is held in the hands of a small number of institutions, the number of investors regularly engaged may be smaller than with more diversified institutional ownership, all with a relatively small percentage of ownership; or
- **Type:** Some companies also proactively engage with investors who are influential with other investors or the media or are very active in governance matters, regardless of the size of their holdings in the company.

A key step in deciding which investors to engage is to identify the company's institutional investors. Because the current regulatory disclosure system does not always provide companies with timely and complete information to identify their shareholders, most companies retain proxy solicitors or stock watch firms to help identify the institutional investors who own their stock. These firms provide vital information, but their reports are approximations, because there is no definitive, real-time source for such information.

Some companies engage with third parties who may understand or influence investors, such as proxy advisory firms, investor associations, and other non-governmental groups. While these may be valuable resources, they are not a substitute for direct engagement. Many larger investors encourage companies to engage directly with them rather than through third parties such as proxy advisors. (See page 24 for an example of a letter encouraging such engagement.)

INVESTORS

As with companies, few, if any, investors have the resources to engage on governance issues on a regular basis with all of the companies in its portfolio. As a result, many investors choose to engage a subset of companies that meet one or more criteria. They include:

- size of holdings: Investors may engage with the top 100 or 150 companies or companies representing a certain percentage of the investor's portfolio; or
- special situations: Investors may engage with companies that are underperforming their industry peers or who have a contested situation or governance issue.

Many investors also lack the resources to gather and synthesize the data necessary for making voting decisions in a timely fashion without the services of a proxy advisor.

Roles and Responsibilities of Company Representatives

Engagement roles and responsibilities vary from company to company. Engagement with investors on corporate governance matters is generally handled on a day-to-day basis by an engagement manager–typically a general counsel, corporate secretary, or other senior officer–in consultation with an internal team of experts. The engagement manager generally engages with investor counterparts who are also governance specialists, rather than investor portfolio managers and analysts with whom management or investor relations team engage on strategic, financial, and operational matters.

Investor relations professionals at companies are responsible for interacting with investor portfolio managers and analysts, addressing company strategy, performance, and operational questions and issues. It is therefore common that they are included on the engagement team or, at the very least, advised about engagement outcomes.

Whoever serves as the company's representative, it is important for the governance engagement manager to have knowledge of governance standards and practices, the company's governance philosophy and practices, and the company's strategy and performance, have access to senior management and the board, and have relationships with investors or the ability to build those relationships.

In developing overall roles and responsibilities for corporate governance engagement, companies may wish to consider the various roles for each participant in the process.

Input Some company participants provide input or approve the engagement strategy (e.g., senior management recommends to the board for approval, if needed).

Oversight Some company participants oversee overall implementation of strategy but are not involved in day-to-day implementation (e.g., C-Suite, board, or board committee).

Day-to-day management An engagement manager is the person who is responsible for overall implementation of the engagement program and serves as an internal point person for investor engagement on corporate governance matters. While a single person may spearhead the management of engagement, engagement is most often and most effectively executed by a team.

Substantive resources Typically, human resources and legal staff who are involved in the design, implementation, and disclosure of the company's executive compensation programs are internal resources for engagement. Environmental issues, governance issues, audit matters or other issues may require involving the internal experts in those areas.

> A critical component in our ability to develop strong relationships with our investors is a well-coordinated internal team which, for a company our size, includes relying on cross-functional subject matter experts from a variety of disciplines. As a team, we can provide accurate and consistent information both to our investors and the board, based on a full understanding of how an issue affects the company.
>
> **Mark Preisinger** director of corporate governance, The Coca-Cola Company

Reporting Typically, the engagement manager reports investor feedback to the board or the relevant committee, such as the governance committee regarding corporate governance or the compensation committee regarding executive compensation.

Outside shareholder engagement resources Many companies take advantage of outside resources, such as professional organizations and advisers, to help them have more effective and efficient dialogue with their investors. These outside resources, because they participate in the market broadly, can often provide perspective and help companies learn from the experiences of other companies.

Board oversight of investor engagement Companies typically consider the following questions when determining how best to support the board's oversight of investor engagement:

- How will the board stay abreast of information regarding the company's largest investors, their investment objectives, and positions on governance matters?
- How will the board get feedback from the company's institutional investors regarding the company's governance, strategy, and performance?

When Directors Should Engage Directly with Investors

As part of developing an engagement strategy, companies should consider the role of the board in direct engagement with institutional investors, as well as the role of the board in overseeing the development and implementation of the company's engagement strategy.

Board involvement in investor engagement in the United States is in its infancy. Today, proactive director involvement with investors is relatively rare, but growing. Such engagement is typically limited to special circumstances that lead directors to conclude that proactive involvement is beneficial to the company. Those circumstances can include:

- re-establishing company credibility following a period of board or management instability;
- resolving significant board composition or succession issues, such as when a company has a number of directors departing or the company is undergoing a significant strategic change requiring new board expertise;
- coping with significant CEO succession issues; or
- dealing with significant policy questions regarding executive compensation.

Companies may decide it is beneficial to actively involve directors in investor engagement without regard to the presence of special circumstances. Even in those cases, directors typically do not address operations or financial performance, but rather important governance and related matters. In countries with different governance systems, such as the United Kingdom, directors participate more actively in investor engagement.

Where directors are not involved in proactive investor engagement, companies may find they need to respond to a request from an institutional investor to speak directly with a director. In responding to these requests, companies typically consider:

- the size of the investor's holdings;
- past discussions between the investor and management;
- the potential outcomes of the engagement and the potential benefits of director participation; and
- the subject under discussion, including whether the engagement relates to an issue that a director is in the best position to address effectively and efficiently.[14]

For some executive compensation issues the compensation committee chair may be in the best position to address an investor's specific question or concern. Some investors find it inappropriate in some circumstances for a member of management who reports to the CEO to be the spokesperson addressing CEO compensation. For a succession issue or concerns with the board's leadership structure, the independent chair, lead director, or governance committee chair may be the most appropriate company spokesperson.

If a company determines that direct engagement between directors and investors should be part of the company's engagement strategy, the most common approach is a telephone call or in-person meeting with one or more directors and the investor, usually with someone from management (such as the engagement manager or head of investor relations), also in attendance.

Some companies have used the following techniques to reduce the burden on directors' time when the company is seeking to reach a large number of investors:

- Invite one or more directors to attend a company meeting with a number of institutional investors.
- Invite one or more directors to attend and/or speak at an investor conference sponsored by the company.
- Invite one or more directors to take part in investor association meetings or other events where large groups of investors participate.
- Invite one or more investors to speak to the board regarding their views on governance practices and trends.

Role of Proxy Advisors in the Engagement Process

Institutional investors retain proxy advisors (a) to consolidate and present data from the multitude of companies in which they invest in a consistent format, as well as (b) to provide analysis and recommendations on public company ballot matters involving corporate governance. Proxy advisors can advise on a wide range of matters–from regular matters such as the election of directors, say on pay, and shareholder proposals, to strategic matters such as a sale or merger of the company.

Although the degree of influence proxy advisors have on investor voting decisions varies with the size of the investor, the investor's engagement and investment strategies, and the issues involved, proxy advisory firm voting recommendations are a significant factor in the corporate governance dialogue and can have a potentially significant effect on the outcome of shareholder votes.[15]

To improve engagement between companies and investors and help insure the accuracy of information used by investors in evaluating the advice of proxy advisory firms, the advisory board recommends that companies and investors consider the following actions:

Companies:

- Engage directly with investors on proxy voting issues rather than indirectly through their proxy advisors.
- Engage directly with proxy advisory firms to correct factual errors and conclusions based on such errors in a proxy advisory firms' report to the company's investors.
- Engage with proxy advisory firms outside of the proxy season to provide information and explanations about the company or its industry that may enhance the analysis in future reports.
- Actively provide feedback to proxy advisory firms in developing and revising governance standards.

Investors:

- Use proxy advisory reports as a source of information in determining how to vote, but don't rely exclusively on proxy advisory recommendations when making voting decisions.
- Actively provide feedback to proxy advisory firms in developing and revising proxy advisor's governance standards.
- Promote the adoption of proxy advisory firm standards and practices that:
  - provide an effective process to correct factual errors quickly;
  - disclose conflicts of interest; and
  - provide transparency into how policies and standards are developed and revised.

How to Engage

Timing of Engagement

ENGAGING OUTSIDE OF THE PROXY SEASON

Many companies and their key investors engage annually outside the proxy season (the period from January to June in which the majority of proxy statements are prepared and filed and annual meetings are held). It is important for companies to keep in mind that during certain weeks in the proxy season, there are 800 or more annual meetings scheduled per week, and investor time and attention is extremely limited. As a result, companies should make every effort to anticipate potential issues and address them outside of the proxy season.

Companies are required to disclose in their proxy statements whether they have considered the most recent say-on-pay vote, which has led to a growing practice among companies of initiating an investor outreach process to discuss such outcomes following an annual meeting. If there is an established relationship and no issue to discuss, investors will often conclude that no engagement is necessary. Companies, however, generally do contact investors annually and let them decide whether a call or meeting is needed.[16]

ENGAGING DURING THE PROXY SEASON

Companies typically reach out to key investors during the proxy season in these circumstances:

- They have a management proposal that can be most effectively and efficiently addressed through a call or meeting, such as an equity plan proposal.
- They have received a negative recommendation by a proxy advisory firm on a company proposal.
- They have received a shareholder proposal they disagree with, leading them to seek the investor's support for the company's decision.

While shareholder proposals can be addressed in advance of an annual meeting, proxy advisory firm recommendations are released shortly before an annual meeting, with the result that the time available for discussion with investors is limited to the busiest period of the proxy season.

When issues arise during the proxy season, supplemental proxy materials can succinctly explain company-specific information that investors should consider as they make voting decisions and weigh proxy advisory firms' advice.

Some investors have policies to actively inform companies of a negative vote on an important issue such as say on pay.

CalSTRS' general approach to engagement is reflective of our role as long-term universal owners. And as a long-term owner, we have a responsibility to actively engage the companies in our portfolio. Our policies reflect this commitment, including our commitment to disclose our voting decisions to the companies in our portfolio.

Anne Sheehan director of corporate governance, CalSTRS

When Less Is More

Companies are sometimes judged by the amount of contact they have with investors. Similarly, investors are often measured by how many times they vote "against" a company.

But these can be misleading metrics to measure either company or investor performance. Open and productive communications can reduce or even eliminate disagreements and result in governance practices acceptable to both companies and investors. As these communications progress and ongoing relationships and trust are established, the need to communicate about issues is reduced and both companies and investors can focus their resources where the need is greatest.

Companies and investors should focus on the quality of the communications and the outcome of those communications, rather than measuring the value of the interaction based on quantity of communications (in the case of companies) or negative actions (in the case of investors).

Choosing Methods of Engagement

When considering a specific engagement, companies and investors should choose the form of engagement that is most appropriate for the particular topic or issue. Often they will use several forms of engagement. For example, an engagement may be initiated by a letter from an investor but ultimately be resolved by conference calls or in-person meetings.

Broad, indirect engagement channels include websites, press releases, and regulatory filings that communicate broadly with all stakeholders. They are particularly effective at communicating policies and reporting policy initiatives and progress, including:

- company governance principles, board committee charters and policies, sustainability, corporate political spending, or other reports;
- investor corporate governance guidelines, voting policies and engagement guidelines; and
- key contact information for the person responsible for discussing voting and governance issues, with email or phone information, which may be directed to a dedicated site or line for company/investor inquiries.

> As major and practically permanent holders of most companies by virtue of our significant index franchise, we have a vested interest in ensuring that governance and compensation practices support the creation of long-term value for investors. We don't hesitate to engage with those companies where we believe changes are needed, but we prefer quiet diplomacy over noisy activism.
>
> **Glenn Booraem** principal and fund controller, Vanguard Group, Inc.

> In our experience, investors are judged on how much they vote against companies by several other groups of interested parties including some clients and the media, as well as some fellow shareholders. The premise seems to be that the more votes against management an investor casts, the more "active and engaged" they are. Whereas our stance is that a vote against management is a sign that our engagement has failed.
>
> **Michelle Edkins** managing director, global head corporate governance and responsible investment, Blackrock, Inc.

Written communications include letters to a board or management from an investor or from a public company board to investors. A letter from a public company board or its chair to company investors can provide valuable information about the board's perspective on the company and its strategy, how the board or the chair perceive its role in the governance of the company, and provide an insight into how the board and the chair function. Some companies are including board letters in their annual reports or proxy statements.[17] A letter or e-mail from a company to an investor may also be effective at responding to a specific inquiry from an investor. A letter from an investor to a company may be particularly effective for communicating a new initiative or focus or seeking to open more direct communications.

Investors have also used letters to:

- provide notice that a company has certain governance practices (such as a staggered board) that do not meet the investor's standards;
- disclose voting decisions; and
- provide notice of the investor's desire to engage on a particular topic.

In a January 17, 2012 letter to 600 companies, Laurence D. Fink, chairman and chief executive officer of BlackRock, encouraged companies to engage directly with their investors.

Dear Chairman or CEO,

On behalf of our clients, BlackRock seeks to ensure that the companies in which we invest pursue corporate governance practices consistent with superior long-term business performance. To this end, and as a fiduciary for our clients, we seek to engage in dialogue with the leadership of these companies to address issues that may be raised during the proxy season.

That's why I am writing to acquaint you with BlackRock's approach to corporate governance and responsible investing (CGRI). I also want to encourage you or your independent Board members, as appropriate, to engage with us if you anticipate any such issues might be raised for your company this proxy season.

We think it is particularly important to have such discussions – with us and other investors – well in advance of the voting deadlines for your shareholder meeting, and prior to any engagement you may undertake with proxy advisory firms. This will give your Board ample time to consider any shareholder feedback and make any changes it deems necessary based on that feedback. Companies that focus only on gaining the support of proxy advisory firms risk forgoing valuable and necessary engagements directly with shareholders.

BlackRock's approach to corporate governance can be described as a value-focused engagement. We reach our voting decisions independently of proxy advisory firms on the basis of guidelines that reflect our perspective as a fiduciary investor with responsibilities to protect the economic interests of our clients. The guidelines are intended very much as a framework. We apply them pragmatically because we believe that effective corporate governance is nuanced. The most important – and frequently the most valuable – form of interaction occurs when companies initiate engagement with us to explore corporate governance issues they expect to encounter. We listen carefully and respectfully to a company's positions, and are willing to support unconventional approaches as long as they can be expected to serve the interests of long-term shareholders.

Executing a value-focused engagement approach requires a sophisticated team, and we have an expert group of corporate governance specialists to review issues and manage the process, including proxy voting. The team coordinates with our fundamental portfolio managers, in effect acting as a clearinghouse for BlackRock's views on a company's corporate governance and its approach to social, ethical and environmental issues.

If you would like to discuss a matter relating to corporate governance with us, please contact Michelle Edkins, Global Head, Corporate Governance and Responsible Investment at michelle.edkins@blackrock.com. I can promise you a fair, respectful and in particular, open-minded airing of views.

Yours sincerely,

Laurence D. Fink

Copies of our policies and voting records are available on our website at (http://www.blackrock.com/corporate/en-us/about-us).

Conference calls and in-person meetings Telephone calls are typically used for most routine investor engagements, particularly during the annual meeting season. Companies seek in person meetings with investors when:

- there is a desire to build or strengthen a relationship with the proxy voting analyst or governance lead;
- there are significant contested issues;
- the company is seeking to re-establish credibility, particularly after periods of significant company stress or change; or
- a company is speaking with investors during the off season.

Planning for Calls and In-Person Meetings

SET AN AGENDA

While a formal agenda for a call or meeting may not be necessary, participants can be more effective and efficient if they have a general understanding of the purpose of the engagement and the topics expected to be covered. Companies and investors should also agree in advance on issues related to the confidentiality of information discussed at the meeting.

Generally, the agenda will be focused on certain governance practices and policies, often in the context of potential shareholder votes on proposals or say on pay. Inclusion of broader topics such as company strategy can be appropriate if the matters being discussed are linked to specific issues (e.g., executive compensation, succession, board composition) or if members of the portfolio management function are also attending and/or they routinely participate in internal voting decisions.

Discussions can be more effective if companies and investors listen to the perspective of their counterparts and seek an open exchange of information, rather than relying on a pre-prepared presentation or coming into the meeting with the objective of convincing the other party to adopt a pre-established point of view.

> It is critical that company representatives take the time to understand each investor's position on key issues, rather than assuming that the points raised by a proxy advisor are the ones that need to be addressed. Just as investors should take the time to understand the nuances among companies to avoid a one-size-fits-all approach to every issue, companies should take the time to understand the views of each of their largest investors individually — as they will frequently disagree on the relative importance of various facets of a particular issue.
>
> **Glenn Booraem** principal and fund controller, Vanguard Group, Inc.

PREPARE

The following are suggestions to help companies and investors prepare for calls and meetings.

Corporate participants should:

- be familiar with the investors' policies;
- review the investor's voting decisions on company matters;
- review any past company reports on engagement with the investor;
- understand the role of the investor participants in voting proxies and decision-making on voting issues;
- consider any other available information regarding the investor that may be relevant to the engagement; and
- be prepared to discuss publicly disclosed company information in as much depth as the investor may appropriately request.

Investor participants should:

- be familiar with the company's proxy statement and other relevant public documents;
- if relevant to the agenda, familiarize themselves with the company's business strategy and how that strategy may differ from their competitors;
- consider having members of their portfolio management team attend the call or the meeting, particularly when the agenda includes financial, operational, or strategy discussions;
- review the status of their holdings in the company;
- review their voting history with respect to the issues involved;
- review their engagement history with the company;
- if appropriate, consider the views of portfolio management on the issues to be discussed;
- understand the role of the company participants in the company; and
- be prepared to discuss their institution's rationale for its positions and voting decisions on matters to be discussed.

Summary and Conclusions

Direct engagement between companies and their investors is in early stages, but is likely to become a permanent, although less formal, part of governance of U.S. public companies.

Engagement practices and topics will no doubt evolve over time to meet the diverse and changing needs of companies and investors as common ground is attained and new issues emerge. Engagement is an important tool to improve alignment of interests between companies and investors and thereby has the potential to enhance the market's confidence in the governance of public companies.

Engagement strategy is not a one-size-fits all model. Each company and investor considers the benefits and costs of engagement and pursues an engagement strategy that fits its specific objectives.

The advisory board has found the following practices to be prevalent today:

- The largest companies with widely held stock are most likely to engage with their investors regarding say on pay and a variety of governance practices and to dedicate significant resources to investor engagement. These resources typically include an engagement manager who oversees day-to-day investor engagement on governance matters, supported by an internal team including experts in investor relations, human resources, and legal issues.
- The largest investors dedicate significant resources to developing governance standards and policies for evaluation of companies in which they invest and to engaging with portfolio companies on corporate governance matters. These investors tend to use proxy advisory reports as a source of information in determining how to vote, but do not rely exclusively on proxy advisory recommendations when making voting decisions.
- Despite dedicating significant resources to engagement on corporate governance, even the largest investors and companies need to effectively deploy limited governance resources, which are particularly constrained during the annual proxy season. Our findings indicate that:
  - companies actively engage only their largest or most influential institutional investors;
  - investors actively engage only the largest holdings in their portfolios, or companies with issues that meet other internal screening criteria reflecting the investor's assessment of the importance of the relevant governance issues at that company;
  - both companies and investors work to identify issues and address those issues outside the annual proxy season;
  - larger institutional investors prefer to work to resolve issues informally rather than resort to the shareholder proposal process as the preferred method to resolve issues and concerns; and
  - as issues are resolved over time and relationships are established, the need for engagement can actually decrease.

- Directors of U.S. companies generally limit their direct engagement with investors to special circumstances, such as a need to restore investor confidence following a time of management or board instability, or to address specific institutional investor questions regarding matters specifically overseen by the board or a committee such as executive compensation or CEO succession.

The advisory board believes engagement can be improved if companies and investors take the following actions:

- Companies and investors make a thoughtful decision about whether engagement is appropriate for their firm. If they decide to engage, their firm develops an engagement strategy that examines, among other things:
  - goals and objectives of their engagement;
  - with whom they will engage and on what topics;
  - who within their organization should be involved in engagement; and
  - the best timing and form of engagement for specific issues.
- Companies and investors focus on the quality of the communications and the outcome of those communications, rather than measuring the value of the interaction based on quantity of communications (in the case of companies) or negative actions (in the case of investors).
- Companies and investors are mindful of one another's resource constraints and seek to communicate in the most efficient and effective manner, including adequate planning and preparation for calls and meetings.
- Companies and investors keep open minds and listen to their counterparts when engaging, rather than focusing only on conveying their own positions.

Endnotes

1 "2013 Proxy Season Wrapping Up," Proxy Monitor (http://www.proxymonitor.org/forms/2013Finding4.aspx).

2 See Lucian Bebchuk, Alon Brav, and Wei Jiang, "Long-Term Effects of Hedge Fund Activism," Columbia Business School Research Paper No. 13-66, July 9, 2013, p. 7 at Table 1. (http://www.columbia.edu/~wj2006/HF_LTEffects.pdf). The study uses the word "interventions" and describes its data set as including all activist activity reported on Schedule 13D filings.

3 Jessica Toonkel and Soyoung Kim, "Activist Investors Find Allies in Mutual, Pension Funds," Reuters, April 9, 2013 (http://www.reuters.com/article/2013/04/09/us-funds-activist-idUSBRE9380DU20130409).

4 For purposes of the guidelines, reference to a company includes management and the board of directors unless reference is made specifically to one or the other.

5 The advisory board is mindful of the legal requirements imposed by Regulation FD promulgated by the Securities and Exchange Commission related to "selective" disclosure of non-public, material information. Companies have successfully complied with these requirements in the context of communicating with investors regarding corporate governance. There are a variety of resources for companies to learn more about compliance with Regulation FD. These guidelines are focused instead on other aspects of company/investor direct communications.

6 These thresholds are not precise, but there is some consensus today among investors that a vote of more than 30 percent of a company's shares against a director or company say-on-pay proposal indicates a substantial level of investor concern. This threshold cannot be applied to all shareholder proposals, since some stockholder proposals typically receive higher levels of support. For example, if only 30 percent of investors at a company voted in favor of declassifying the company's board (a proposal that typically receives 80 percent support), it may not be a sign that a company needs to implement a more robust engagement program, absent other factors.

7 An investment adviser's fiduciary duties are rooted in a combination of the common law (principally in the laws of agency and trust) and federal statutory law (principally the Investment Company Act of 1940 and the Investment Advisers Act of 1940).

8 Proxy Voting by Investment Advisers, Investment Advisers Act Release No. IA-2106 (Jan. 31, 2003).

9 *Id.* (Proxy voting by Investment Advisers). See also Rule 206(4)-6 under the Advisers Act, in which the SEC confirmed that "The duty of care requires an adviser with proxy voting authority to monitor corporate events and to vote the proxies. To satisfy its duty of loyalty, the adviser must cast the proxy votes in a manner consistent with the best interest of its client and must not subrogate client interests for its own." However, the SEC did note that failure to vote would not mean breach of fiduciary duties. It stated, "We do not suggest that an adviser that fails to vote every proxy would necessarily violate its fiduciary obligations. There may even be times when refraining from voting a proxy is in the client's best interest, such as when the adviser determines that the cost of voting the proxy exceeds the expected benefit to the client. An adviser may not, however, ignore or be negligent in fulfilling the obligation it has assumed to vote client proxies."

10 Letter from Alan D. Lebowitz, Deputy Assistant Secretary, Dep't of Labor, to Helmuth Fandl, Chairman of the Retirement Board, Avon Products Inc. (Feb. 23, 1988), reprinted at 15 Pens. Rptr (BNA) 391. This letter addresses a procedural issue: whether a plan trustee retains the rights to vote proxies if it has delegated investment management to an investment advisor. The Department of Labor stated that in that case the trustee does not retain the right to vote. The letter, in a footnote, reiterates the substantive position of the Department that "to act prudently in the voting of proxies (as well as in all other fiduciary matters), a plan fiduciary must consider those factors which would affect the value of the plan's investment." The letter contains no explicit requirement that investment managers for pension plans vote every proxy.

11 91 percent of institutional investors' shares of large companies were voted in the 2013 proxy season. "Does shareholder behavior vary by company size? A closer look at shareholder voting," ProxyPulseSecond Edition 2013, p.2, (http://media.broadridge.com/documents/Broadridge-PwC-ProxyPulse-Second-Edition.pdf).

12 Excellent examples of such policies can be found for the following: Blackrock, Inc. (http://www.blackrock.com/corporate/en-us/about-us/responsible-investment); California State Teachers Retirement System (CalSTRS) (http://www.calstrs.com/pod/calstrs-proxy-voting-fiscal-year-2012-13); Florida State Board of Administration (http://www.sbafla.com/fsb/Portals/Internet/CorpGov/ProxyVoting/20120712_SBACorporateGovernancePrinciplesProxyVotingGuidelines.pdf); T. Rowe Price Group, Inc. (http://corporate.troweprice.com/ccw/home/responsibility/conductingBusinessResponsibly/proxyVotingSummary.do); Vanguard Group, Inc. (https://about.vanguard.com/vanguard-proxy-voting/).

13 The following are examples of such policies:
Florida State Board of Administration: The SBA discloses all proxy voting decisions once they have been made, prior to the date of the shareowner meeting. Disclosing proxy votes prior to the meeting date improves the transparency of our voting decisions and supports widespread public disclosure of SBA investment decisions. Disclosing proxy votes in advance of their effective dates will fully emphasize the SBA's position on proper corporate governance practices. Historical proxy votes are also archived for a period of five years and available electronically on the SBA's website.
CalSTRS: CalSTRS is committed to disclosing its corporate governance principles and its proxy voting. We believe by publicly disclosing our principles we can not only use the principles to advocate for better corporate governance but also provide a framework for our engagement activities. The principles allow for intelligent dialogue and healthy debates between us as investors and the companies in which we invest.

14 Many companies believe it is not appropriate to make directors available for engagement on a variety of topics, such as discussions of company strategy and performance.

15 More than 70 percent of directors and officers report that their compensation programs are influenced by the policies or guidelines of proxy advisory firms. David F. Larcker, Allan L. McCall, and Brian Tayan, "The Influence of Proxy Advisory Firm Voting Recommendations on Say-on-Pay Votes and Executive Compensation Decisions," *Director Notes*, DN-V4N5, 2012 (http://www.conference-board.org/publications/publicationdetail.cfm?publicationid=2138). A 2010 study by Choi, Fisch and Kahan finds a recommendation from ISS shifts the outcome of non-say on pay votes by 6 to 10 percent Stephen Choi, Jill Fisch, and Marcel Kahan, "The Power of Proxy Advisors: Myth or Reality?," *Emory Law Journal* 59, 2010, p. 869 (finding that, when both ISS and Glass -Lewis recommended shareholders vote against say -on-pay proposals, opposition to the plans was 38.3 percent higher than would be predicted based on average support for such say on pay proposals). A 2012 study by Yonca Ertimur, et al., showed that a negative recommendation by ISS is associated with 24.7 percent more votes against a compensation plan and a negative recommendation by Glass Lewis is associated with 12.9 percent more votes against the compensation plan. Yonca Ertimur, Fabrizio Ferri, and David Oesch, "Shareholder Votes and Proxy Advisors: Evidence from Say on Pay," Journal of Accounting Research, 2013, p. 3 (http://onlinelibrary.wiley.com/doi/10.1111/1475-679X.12024/abstract). This study is consistent with a number of previous studies that indicated 20 to 30 percent influence for ISS and 5 to 10 percent for Glass Lewis. ("A Call for Change in the Proxy Advisory Industry Status Quo," Center on Executive Compensation, 2011, p.3).

16 Companies should be familiar with proxy advisory firm policies that affect the desirability of engaging with investors.

17 Examples of such letters include: Allstate Insurance Company, (http://www.allstate.com/resources/Allstate/attachments/annual-report/Allstate-Corporation-2012-Annual-Report.pdf); Goldman Sachs Group (http://www.goldmansachs.com/s/2013-proxy/HTML2/goldman_sachs-proxy2013_0008.htm); NASDAQ OMX Group, Inc. (http://files.shareholder.com/downloads/NDAQ/2915790814x0x652901/0e9a3b85-5456-4a3b-ba35-a18445307949/NDAQ2013Proxy.pdf); Prudential Financial, Inc. (http://www3.prudential.com/annualreport/report2013/proxy/HTML2/prudential-proxy2013_0003.htm).

ADDITIONAL RESEARCH AND ANALYSIS PREPARED FOR THE TASK FORCE ON CORPORATE/INVESTOR ENGAGEMENT

1 **The Conference Board Governance Center Task Force on Corporate/Investor Engagement, "Recommendations of the Task Force on Corporate/Investor Engagement," The Conference Board, March 2014.**

A set of recommendation of the Task Force on Corporate/Investor Engagement intended to align public corporations and their investors to optimize the system of corporate governance and to jointly take responsibility for increasing public trust in business by instilling a culture of integrity, transparency, and engagement in the governance of public corporations.
Available at www.conferenceboard.org/taskforce/recommendations

2 **The Conference Board Governance Center White Paper: "What is the optimal balance in the relative roles of management, directors and investors in the governance of public corporations?" March 2014, written in collaboration with Cleary Gottlieb Steen & Hamilton, whose principal authors are Suneela Jain and James D. Small III; and The Conference Board Governance Center, whose principal contributors are Barbara Blackford, senior advisor,and Donna Dabney, executive director.**

A comprehensive review of the history of the relative roles of management, directors, and investors in corporate governance; the current status of the balance of these roles; issues in the system; and the current state of the debate on these issues.
Available at www.conferenceboard.org/taskforce/whitepaper

3 **Leslie N. Silverman and Julie L. Yip-Williams, "The Underpinnings of Corporate Governance Approaches and the Shareholder Value Model," The Conference Board, *Director Notes* Vol. 5 No. 14, July 2013.**

Based on research generated from the task force, this *Director Notes* endorses proposals by Dominic Barton, global managing director of McKinsey & Company, in "Capitalism for the Long-Term," *Harvard Business Review*, March 2011: Business and finance should revamp incentives to focus their organizations on the long term; business leaders should adopt the perspective that serving the interests of all major stakeholders–employees, suppliers, customers, creditors, communities and the environment–is essential to maximizing corporate value; and pubic company boards should govern like owners.
Available at www.conferenceboard.org/taskforce/underpinnings

4 **Arthur H. Kohn and Julie L. Yip-Williams, "The Separation of Ownership from Ownership: The Concerns Raised by Institutional Investors as Intermediaries," The Conference Board, *Director Notes* Vol. 5 No. 22, November 2013.**

A prior *Director Notes* examined the issue of separation of ownership from control inherent in the widely held public company. This *Director Notes* focuses on issues associated with the separation of ownership within the structure of institutional investments.
Available at www.conferenceboard.org/taskforce/ownership

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ABOUT THE CONFERENCE BOARD GOVERNANCE CENTER TASK FORCE ON CORPORATE/INVESTOR ENGAGEMENT

From accounting scandals to the global financial crisis, events of the past decade have damaged the reputation of business, contributing to a public distrust of business in general. In February 2013, The Conference Board Governance Center formed a task force on corporate/ investor engagement to bring together directors of public companies and investors to find solutions to help create a stronger corporate governance system through effective engagement. The task force examined the facts, the issues, and the policy implications of the current state of U.S. corporate governance, with the objective of addressing the following questions:

- What is the optimal balance in the relative roles of management, directors, and investors in the governance of public corporations?
- What are the gaps between the optimally balanced system and the current system?
- How should boards and investors engage with one another to lead to an optimally balanced system?

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