

Governance and Engagement Principles

Strategy

Companies should adopt, formulate, and communicate value-enhancing long-term strategies: managements should set and communicate clearly defined long-term goals which avoid strategies oriented to short-term benefits, implement *value-driven* M&A strategies, and subject major decisions, including large mergers, acquisitions, reorganizations, or similar actions, to a shareholder vote.

Incentives

Companies should align management and board incentives with long-term shareholder goals: management and the board should maintain significant equity ownership; incentive compensation should be directly tied to creating long term economic value, long-term share price performance and other objective performance metrics; equity awards should have long vesting periods, clawbacks and downside participation; and the repricing and reloading of equity incentives is discouraged.

Board Independence

Effective boards of directors must be truly independent: boards should have diversity of background and relevant experience, not be bound by relationships with management or between board members and avoid conflicts of interest; boards should refresh membership and rotate committee membership periodically and avoid elongated tenures. Executive sessions comprising independent directors should convene at least annually. We, in general, like to see separation in the roles of Chairperson and CEO. In instances where the Chairperson and CEO roles are combined, the board should appoint a lead independent director.

Shareholder Representation

Companies should strive to maximize shareholder representation: generally align voting rights with economic interest; limit the use of hierarchical control structures; apply the majority standard to director elections, and allow long-term shareholders to participate in decision making through direct director nomination, proxy access, calling a special meeting or acting by written consent. Takeover defense provisions that prevent companies from achieving full valuations are discouraged.

Capital Deployment

Companies should allocate capital to maximize long term risk-adjusted shareholder value: effect an economic returns-based capital allocation system; maintain efficient corporate capital structures that minimize the risk-adjusted cost of capital; avoid excessive leverage or excessive cash buildup; regularly return excess capital to shareholders, and explore divestitures/spin-offs of non-core assets and business units for which divestiture will enhance shareholder value.

Transparency and Communications

Companies should provide transparency in communication and reporting: maintain an independent and skilled audit committee; use independent auditors that are rotated periodically; if appropriate, report non-GAAP measures that allow greater understanding of the on-going business with an approach consistent with their industry practices; provide profitability metrics by business unit, and report the value of non-operating assets. Managements should communicate regularly with shareholders; and board of directors should be accessible to shareholders.

Risk Management

Boards of directors should actively engage with management to evaluate and control enterprise risk: this includes defining and monitoring a risk oversight process; and developing succession planning.

Environmental/Social Issues

Companies should consider the long term impact of their business model and operations: defining and disclosing relevant environmental/social metrics is critical to managing risks and assessing opportunity. Boards should encourage greater disclosure of metrics that are material to long term shareholder value.

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