**Investor Coalition Publishes U.S. Stewardship Code**

On January 31, 2017, the Investor Stewardship Group, a coalition of sixteen investors, premiered the Framework for U.S. Stewardship and Governance (the Framework), outlining a set of six fundamental governance principles for U.S. listed companies and stewardship principles for U.S. institutional investors. The Framework is an investor-led effort written by senior corporate governance staff at each shareholder. Some elements of the Framework overlap with the joint company and investor statements in the Commonsense Corporate Governance Principles published in July 2016. The Investor Stewardship Group covers $17 trillion in assets under management including BlackRock, State Street, T. RowePrice, ValueAct and Vanguard as well as other asset managers and pension funds, with a call for additional signatories.

The six governance principles within the Framework are already well known to companies. The Framework's governance principles state that: **(1)** Boards are accountable to shareholders; **(2)** Shareholders should be entitled to voting rights in proportion to their economic interest; **(3)** Boards should be responsive to shareholders and be proactive in order to understand their perspectives; **(4)** Boards should have a strong, independent leadership structure; **(5)** Boards should adopt structures and practices that enhance their effectiveness; and **(6)** Boards should develop management incentive structures that are aligned with the long-term strategy of the company.

Companies should be aware that this document extends some of the specific requirements within the six principles to a "comply or explain" framework similar to that seen in certain European market stewardship codes. Some key points of the Framework include:

**Traditional Investor Rights**:

- **No Dual Class Structures**—Companies that do not have a one-share, one-vote structure in place should "establish mechanisms to end or phase out" controlling or dual-class voting structures at an "appropriate time." Investors will look to companies with dual-class structures to take action or risk being deemed unresponsive to shareholder concerns.

- **Annual Board Elections—**Companies should require directors to stand for election annually, as classified, or staggered, boards "can reduce the accountability of companies and directors to their shareholders."
- **Majority Voting—**Directors who do not receive majority support in an annual election should resign from the board and companies should provide an explicit explanation for any situation in which that director remains on the board.

**Investor Focus Areas**:

- **Director Engagement & Accountability—**Companies should make available independent directors to engage in dialogue with shareholders on matters of significance. Directors who have "persistently failed to respond to feedback from their shareholders," should expect investors to oppose their re-election.
- **Independent Board Leadership—**The Framework explicitly notes a split in views among the signatories on this issue, but states that independent board leadership may be achieved through either an independent chairperson or a lead independent director with a robust role. Where there is an executive chairperson and a lead independent director, boards should periodically review the structure and explain how a division of responsibilities is intended to maintain integrity of oversight.
- **Board Refreshment—**Boards should disclose mechanisms to ensure appropriate board refreshment, including evaluation processes. Additionally, policies relating to term-limits and/or retirement ages should be reviewed regularly. Notably, there are no prescriptive limits set forth on board tenure or retirement ages.
- **Compensation Aligned to Long-term Strategy—**Boards should clearly communicate short and long-term strategic drivers for the company, and establish a clear link to the company's incentive programs. Extraordinary awards should be explained to shareholders. Change in a company's long-term strategy should trigger a re-evaluation of compensation programs.
- **Explanation of Defensive Mechanisms—**Companies that have anti-takeover measures in place should explain why those measures are in the long-term interest of a company.

While "the Framework is not intended to be prescriptive," the website does, however, include a countdown to the implementation date. The implication is that once the Framework goes into effect on January 1, 2018, companies may be at risk of opposition from shareholders on issues where they do not comply or explain reasonably the need for non-compliance. In the Framework's policies governing stewardship by investors, ultimate decisions to oppose directors at specific companies are left to the individual investors based on their independent decision making processes.

The Framework's corporate governance guidelines establish a common ground of expectations for companies and investors. Investor engagement will continue to provide the best texture and insight into the evolving views of individual investors. Companies should be thoughtful in their approach to addressing the issues outlined by the Investor Stewardship Group.

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**About CamberView**

*CamberView Partners is the leading provider of independent, investor-led advice to public companies on how to successfully manage investor engagement, contested situations and complex and challenging corporate governance issues. We advise company executives and boards on a wide range of events including contested merger situations, hedge fund activism, director elections, compensation matters, difficult shareholder proposals, sustainability and more. CamberView helps its clients succeed with their investors by providing insight into the investor's perspective, explaining how investors will respond to the company's proposals, and creating successful proactive strategies for investor engagement.*

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