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Investor Group Applauds CommonSense Principles 2.0

Washington, D.C., Oct. 18, 2018 — The Council of Institutional Investors (CII) praised CommonSense Principles 2.0, a set of corporate governance principles unveiled this morning by a group of business and investment leaders. This is an updated version of a code developed by JPMorgan Chase Chairman and CEO Jamie Dimon and others in 2016.

"We see significant improvement in CommonSense 2.0," said CII Executive Director Ken Bertsch. "Important revisions include a strong statement of the right of shareholders to elect directors who they believe are best suited to represent shareholder interests, backed up by better language encouraging a consequential majority vote standard (boards 'ordinarily should accept' the resignation of a director who fails to receive majority support); endorsement of proxy access; and a statement that annual election of all directors can help promote the board accountability to shareholders." (The original CommonSense Principles did not address annual election of directors.)

There are differences with CII Corporate Governance Policies, which, for example, more strongly support annual election of directors." CII's member-approved Corporate Governance Policies have been developed and refined over 33 years, and are a benchmark for investor-oriented policy on shareholder rights and corporate governance. But, Bertsch noted, the "thoughtfulness and clarity of CommonSense 2.0 on many key elements required for effective corporate governance is an important contribution."

Comments on specific aspects of the principles follow.

Proxy advisory firms

Bertsch said CommonSense Principles 2.0 "puts the correct focus with regard to proxy advisors – on asset manager responsibility to make appropriate use of proxy advisor research." He said: "I would hope that the CommonSense language would herald a shift from business leaders attacking and seeking to hobble proxy advisors, to a more mature focus on asset managers and asset owners who actually vote in corporate elections." Bertsch said the new CommonSense language "is entirely on-point":

> To the extent they use recommendations from proxy advisors in their decision-making processes, asset managers should disclose that they do so, and should be satisfied that

the information upon which they are relying is accurate and relevant. Proxy advisors whom they use should have in place processes to avoid or mitigate conflicts of interest.

CommonSense 2.0 more closely aligns with CII policies

Bertsch noted that the updated version includes acknowledgement of shareholders' right to nominate their own candidates for directors on company proxy ballots ("proxy access). He also praised other aspects of the principles:

- New emphasis on director duties of loyalty and care, and director accountability to shareholders
- Emphasis throughout that directors should be "shareholder-oriented"
- The need for board committee independence
- Expanded discussion and encouragement of company engagement with shareholders
- New language discouraging adoption of poison pills and other anti-takeover measures, with the assertion that if such measures are adopted, they should be put to vote of shareholders
- Strengthened language on explaining use of non-GAAP measures in corporate reporting, and the need to bridge to comparable GAAP items
- Strengthened language on the importance of independent board leadership
- A new section directly aimed at institutional asset owners, who are encouraged to use their position "to advance sound and long-term oriented corporate governance."

CII's former board chair, Theresa Whitmarsh of the Washington State Investment Board, has endorsed the CommonSense Principles 2.0.

Johnson & Johnson Chairman and CEO Alex Gorsky is another new signatory. Gorsky, who also chairs the Business Roundtable's Corporate Governance Committee, will be interviewed by CII Board Chair Ash Williams at next week's CII fall conference in New York.

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