Oct. 25, 2016

Mr. Paul A. Maeder
Chairman of the Board
c/o Corporate Secretary
2U, Inc.
8201 Corporate Drive, Suite 900
Landover, MD 20785-2208

Dear Mr. Maeder:

I am writing on behalf of the Council of Institutional Investors (CII) to urge the board to adopt a majority vote standard for uncontested director elections. CII is a nonprofit, nonpartisan association of employee benefit plans, foundations and endowments with combined assets that exceed $3 trillion. CII’s associate (non-voting) members include asset managers with more than $20 trillion in assets under management.

According to FactSet, 2U elects uncontested directors by a plurality of votes cast, resulting in candidates winning election upon receiving one favorable vote. This practice is inconsistent with CII members’ expectations for director accountability, as well as with nearly 30 percent of the small-cap Russell 2000 index and over 70 percent of the large-cap Russell 1000 index. CII encourages 2U to amend its governing documents to implement a true majority vote standard under which an uncontested candidate must receive more votes “for” than “against” to win election, subject to a holdover period.

As you may be aware, some companies have embraced “plurality plus” policies by which directors are elected upon securing one favorable vote but submit resignation letters if they fail to obtain more votes “for” than votes “withheld.” CII believes this approach is fundamentally inferior to a true majority standard, for three reasons:

- At many “plurality plus” companies when a director receives more “withheld” votes than “for” votes, the board simply rejects his or her resignation. In fact, CII has observed that only 18 percent of directors at “plurality plus” companies who did not receive majority support in 2013-2016 had left their boards as of Aug. 24, 2016.
- A true majority standard provides tangible accountability because it allows shareholders to vote “against” a candidate. In contrast, the “withhold” vote of a plurality standard, even when coupled with a resignation policy, does not really provide shareowners the ability to affect the outcome of an uncontested election, but gives them a misguided sense of influence.
- Finally, true majority standards are embedded within a company’s governing documents, providing definitive legal grounding. Resignation policies, on the other hand, may reside outside the charter and bylaws, creating uncertainty as to their application.
The “plurality plus” approach is sometimes adopted out of concern that a failed election could cause the company to be noncompliant with contractual obligations, exchange listing rules and/or regulatory requirements. However, we note that a true majority standard can be written so as to provide the board with ample time to maintain compliance throughout the process of recruiting a replacement director.

We request the board’s fresh consideration of adopting a true majority standard, regardless of whether it has previously discussed the issue. Please share this letter with the full board. We look forward to your response. If you have any questions, please contact me or CII Research Analyst Gabriel Morey at gabriel@cii.org.

Sincerely,

Kenneth A. Bertsch
Executive Director