

Corporate Governance

What to Look For:

Presented by Jane Nelson

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Disclaimer:

- Any company mentioned in this presentation is for the purpose of making an educational point not to recommend a buy or sell on that stock.

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Board Independence

- Who's on the Board?
- How many are outsiders? Insiders?
 - Average is 77% outsiders, 23% insiders
 - Only connection to company should be board service
 - (No commercial relationships, real estate deals, legal fees or consulting contracts)
 - Family relationships, Interlocking directorships (When CEO's serve on each others boards)
 - Does Board meet periodically w/o CEO present?
 - Is there a Lead Director who can call directors together w/o CEO permission?

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Audit Committee

- Must be independent directors
- Must have at least 3 financially literate members
 - One accounting and financial expert
- Has any member ever worked at an audit accounting firm?

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Board Commitment

- Should meet minimum four times a year
 - And preferably more often
- Did members attend at least 90% of the meetings?
 - Proxy statement must list directors who attended less than 75% of scheduled meetings
 - Council of Institutional Investors (CII) recommends maximum 5 boards one person can properly serve

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Board Size

- Average Board is 11 members
- CII recommends between 5 and 15

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Board Compensation

- 2013 –Median Total Compensation---\$181K
 - combination of cash, stock, meeting fees, etc.
- Watch for extreme variations from median
- Portion of compensation should be in stock

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Board Perks

- Only 6% of S&P 500 companies offer director retirement plans
- Retirement plan for directors should be in proxy – BEWARE!!!
- No-No's
 - Meetings at posh resorts
 - Sweetheart deals
 - Company jets
 - Philanthropic contributions to pet causes

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Succession Planning

- Choosing the CEO is Board's most important duty
- Carefully read Board's description of CEO duties
- Look cautiously at company whose Board doesn't take active role in succession planning

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Executive Pay

- How is executive compensation determined?
 - Does compensation committee use clear, performance-driven standards for CEO pay?
- Stock Options?
 - Principle that performance is tied to share price is good.
 - If paid too many, it waters down share price.
 - Remember that it is shareholders money!

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Board Elections

- About 60% have staggered terms
- Annual elections give shareholders more control

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Poison Pills

- Make it easier for present management to retain control
- Prevent shareholders and market from disciplining management by getting rid of it

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Where to Find: Annual Proxy statement

- www.calpers-governance.org for Calpers Focus List of companies with poor governance
- www.sec.gov for documents
- www.thecorporatelibrary.com overall resource on CEO contracts, pay, director independence, and other issues
- www.iss.cda.com Web site of Institutional Shareholder Services, a proxy monitoring organization that recommends how its clients (major investment firms) should vote

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(Continued)

- www.cii.org which represents pension and mutual funds
- www.tiaa-cref.org draws up a list of poor performing companies only after it has worked behind the scenes to get change
- www.aflcio.org/paywatch has handy executive compensation worksheet in addition to much info

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Source:

- Levitt, Arthur: “Take on the Street” P. 223-235
- Pantheon, ISBN 0-375-42178-5

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• Do we have any Questions?
Thank you.

• Contact:
j.nelson@rmchapter.org

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