



ICGN

International Corporate Governance Network

ROCK CENTER FOR CORPORATE GOVERNANCE STANFORD

**ICGN –Stanford Rock Center Academic/Practitioner Day
Hosted by Charles Schwab, San Francisco
30 June 2016**

Promoting long-term thinking and behaviour for sustainable capital markets: what are the theories and where is the evidence?

ICGN Introduction

On 30 June 2016, following its annual conference and general meeting in San Francisco, ICGN held its annual Academic/Practitioner Day, co-partnered this year with Stanford's Rock Center for Corporate Governance, hosted in the offices of Charles Schwab. This is the third annual ICGN Academic Day linked to its annual conferences. This follows the initial events at Nyenrode University in the Netherlands in 2014 and at London Business School in 2015.

ICGN has established this tradition of Academic Days to build bridges and understanding between academics and practitioners with an interest in corporate governance. The basic intent is educational-- consistent with the ICGN mission, and certainly that of Rock Center as well. The sessions were designed to provoke thinking about what we do and do not know about corporate governance through an interplay between academics and practitioners, as both presenters and discussants, across a range of current corporate governance issues.

We believe this was a stimulating, and, we hope, rewarding event—it was certainly well-attended with a very engaged audience. We would like to thank our friends at Rock Center, Dan Siciliano and Amanda Packel in particular, for their gracious support and involvement, and extend our thanks to all the academics who took the time to join us for this event. We are also thankful to Charles Schwab for agreeing to host us in their offices. Finally, thanks are due to the ICGN planning committee for the day: Gwen Le Berre of Charles Schwab, Jon Lukomnik of IRRIC Institute, Aisha Mastagni of CalSTRS and Anne Sheehan of CalSTRS. They provided valuable support, particularly in thinking through programme structure and content.

This compendium report of the day's event chronicles the papers, the discussants' comments and the audience dialogue. This allows our event to live beyond the day itself and add to the foundation for future events of this nature-- and to ICGN's ongoing links to the academic community globally. This report will be housed on the ICGN website¹, along with the individual papers that were discussed at the event.

The four sessions were reported upon by rapporteurs with extensive corporate governance knowledge and experience. Each report has its own distinctive style, reflecting the individual rapporteur's perspective and approach to the session. This includes the authors' use of both US and UK English spelling practices. So in the best spirit of comply or explain, the editing has not sought to harmonise rapporteurs' use of English. Accordingly, we present this proudly as a multilingual report!

¹ See: <https://www.icgn.org>

Rock Center Introduction

The Rock Center would like to thank ICGN, and George Dallas in particular, for providing us the opportunity to partner on this year's Academic/Practitioner Day. The Rock Center, a joint initiative of Stanford Law School and the Stanford Graduate School of Business, was created to promote multi-disciplinary academic research and related programs that bridge the gap between theory and practice in corporate governance. The interaction during ICGN's Academic/Practitioner Day exemplified the Rock Center's mission to advance the understanding and practice of corporate governance in a cross-disciplinary environment where leading academics, business leaders, investors, practitioners, issuers, and regulators can meet and work together.

Overview and Introductory Issue Notes for Each Session

George Dallas
Policy Director, ICGN

Investors and other corporate governance practitioners live in a world in which practical decisions are taken daily with regard to corporate governance. This includes basic investment decisions and company valuations, decisions on how to exercise voting rights and decisions on which companies to engage on which issues. Codes of corporate governance and investor stewardship exist in jurisdictions around the world to guide both companies and investors through these decisions.

All of this begs the question of what is good corporate governance in practice—and whether our prevailing beliefs, assumptions and codes of corporate governance have valid underpinnings. It is useful for practitioners therefore to step back periodically from the daily grind to think about corporate governance in a broader context. For starters there are questions of purpose: what is the purpose of companies, of investors and of finance – and where does corporate governance fit in this context? At the macro level governance can influence economic growth, capital flows and stable financial systems. At the micro level both companies and investors seek to understand and implement good governance practices that promote sustainable value creation in individual companies. However, in both a macro and micro context there can be disagreement about what constitutes good practice.

Academics grounded with empirical quantitative perspectives can be quick to observe that corporate governance is a subject about which there may be more opinions than facts. This reflects either mixed or inconclusive evidence relating to the benefits or disadvantages of individual governance practices— for example the combined CEO/Chair role. Extrapolating this concern into the language of sociology, academics sometimes refer to practitioner acceptance of established governance codes and standards as little more than “rationalised myth”. At the same time, practitioners need some grounding with which to deal with the world as it is, even if based on imperfect or incomplete information.

This is where academic research can play an important role in helping practitioners better understand how corporate governance fits into a broader market context, and which commonly accepted governance practices are – or are not—substantiated by evidence linking corporate governance to specific performance outcomes. In this context academics and practitioners often look at similar issues, but sometimes it can seem at times like a parallel universe where each are framing problems differently, with differing levels of supporting data-- and often drawing different conclusions as well. For some practitioners academic research can sometimes come across arcane or possibly difficult to follow, and links to practical applications unclear.

From this, the question that we as practitioners ask is how can academic research in corporate governance inform what we do, help us make better decisions and how can that affect our practices and our outcomes? Similarly, how can what we do as professionals potentially inform the academic community in terms of considering areas for research?

The attendance and discussion at this Academic Day demonstrated that the investment community is keenly interested in, if not thirsting for, ever more evidence that can support a better understanding of corporate governance -- what both good and bad look like, and how research can lead us in that direction. The event focused on four specific themes of corporate governance:

- Differential ownership rights
- Passive investment and stewardship
- Capital allocation
- Hedge fund disclosure

The relevance of these issues and the substance of the papers and the related discussions are addressed in the individual session reports. Each session had presenters and discussants. In most cases this focused on published papers, but in the session on capital allocation the presenters spoke to research that is still in process.

Each session report capably speaks for itself. But looking at the day as a whole, we would like to make two observations:

- In most sessions there was broad agreement between presenters and discussants on themes discussed. This was not the case, however, in the first session on differential ownership rights-- where there was shown to be a split in the perspectives of investors on the one hand and the legal scholars on the other. While this might be described as a difference between academics and the practitioner community, the explanation may be more couched in geography. Institutional investors with portfolio holdings in companies around the world – particularly in continental Europe and emerging markets-- are often wary of controlled companies that use private benefits of control to pursue an agenda that may or may not be supportive of the long-term interests of the company and its shareholders. There is clearly a lack of trust between shareholders and controlling shareholders, and most investors are opposed to differential rights because they can entrench controlling owners from accountability to shareholders.

But trust goes both ways. The advocacy of differential ownership rights also suggests a lack of trust by companies, and the concern that the sometimes short term animal spirits of institutional investors and the financial markets can impede the entrepreneurial culture and long-term development of companies. Differential rights are a way to nurture and protect promising companies from potentially destabilising market forces—and this reflects their popularity in the high tech sector in Silicon Valley.

The debate on differential ownership rights was not resolved on the day. However it is important that both sides of the debate understand the other side's position—and both the potential positives and negatives of maintaining differential rights. There remains scope for looking at differential rights in the context of the life cycle of the firm, and in ways that have sunset clauses to prevent permanent distortions or entrenchment of controlling owners to the disadvantage of minority shareholders. The challenge is to build trust in both directions between companies and shareholders, and a focus on engagement around sustainable long-term value creation is possibly the best way to bring together company and shareholder perspectives.

- Academic research in economics and finance—and increasingly in law-- is typically based on applying rigorous statistical analysis to empirical data, resulting in quantitative conclusions with probabilistic degrees of confidence. For empirical researchers using these tools, statistical significance is the foundation for building an epistemological view

of what we do and do not know about corporate governance. Buy-side or sell-side research without rigorous statistical underpinning might be regarded as simplistic—and potentially misleading—in an academic context. This point came out in the discussion where the academic message was that practitioners should know how to read and interpret statistically based research—or at least be aware of the limits of interpreting analysis without strong statistical foundations.

At the same time, however, academic research might at times be regarded by practitioners as arcane, if not overwrought, and it is important to recognise that practitioner and academic research, while often complementary, are distinct and tend to serve different purposes. Indeed, not all corporate governance questions have data sets ready to hand to allow for cross-sectional regressions and point estimations to a 99 per cent confidence level. And even when they might, the time required for diligent research and review may result in outcomes that might be useful academically, but less relevant or even out of date practically. In the second session on passive funds, for example, there was general accord between the presenter and the two practitioner discussants. But one of the practitioners did note that some of the specific issues addressed in the econometric study were less relevant today than other factors when assessing investor stewardship in passively managed funds.

In sum, it is aspirational, but probably not practical, for academic research to guide all the questions that governance practitioners confront. This explains why many codes of governance are based more on principles than specific rules; there remains considerable scope for human judgment. But ongoing interaction of academic and practitioner communities can continue to produce research to challenge received wisdoms or inform new judgments. The debate will continue.

Session One: Shareholder rights

Are differential ownership rights a good thing for companies and investors?

- **Steven Davidoff Solomon**, Professor of Law, University of California at Berkeley, & **David Berger**, Partner, Wilson Sonsini Goodrich & Rosati, “Tenure Voting and the U.S. Public Company”
- **Edward Kamonjoh**, ISS, “Controlled Companies in the Standard & Poor’s 1500, A Follow-up Review of Performance & Risk”. Paper to be presented by **Patrick McGurn**, ISS
- Discussant: **Professor Joseph Grundfest**, Stanford Law School, US
- Discussant: **Eugenia Jackson**, Allianz Global Investors, UK

The issue

One of ICGN’s four policy priorities for 2015/16 is to promote long-term investment perspectives while protecting minority shareholder rights. A key focal point in this context is the debate over dual class shares and differential ownership rights. It is an issue that features prominently globally. In Europe, the Florange Act in France and the Growth Decree in Italy were implemented to facilitate differential voting rights to promote long-termism—notwithstanding protests of institutional shareholders who see these rights more as an entrenchment of controlling owners. The European Union’s revised Shareholder Rights Directive also considered a proposal from the European Parliament to introduce differential rights across the EU, but this was subsequently withdrawn following pressure from investors and other stakeholders. Similar concerns about dual class shares or differential voting rights exist in North America, Asia and

other emerging markets. Investors generally prefer “one share one vote” to address concerns about entrenchment and lack of accountability, particularly in cases where controlling owners who may have different long-term agendas than institutional shareholders.

Silicon Valley offers a counterpoint to this debate. Many well-established technology based companies use dual class structures to shield themselves in particular from activist investors whose interests and time frame may be short-term, and therefore not supportive of the company’s long-term development. There tends to be a general acceptance of the dual class approach in this sector, and the debate is shifting to what specific approaches, such as tenure voting, might form the best architecture for a dual class structure.

Important questions:

- Are these two perspectives on differential rights irreconcilable?
- Is there a fundamental mistrust between companies and investors?
- Is one share/one vote called for in all situations?
- What are the cases that best justify differential rights? Where there is some justification, should this be accompanied by a sunset clause or a way not to make this an irreversible feature?
- What academic evidence exists on effects of entrenched ownership—what is the downside to a mismatch of voting rights and economic stake in the firm?

Session Report

Rapporteur: **Mauro Cunha**, AMEC-- Brazilian Association of Capital Market Investors, Brazil

Recipe for an outstanding panel:

Take one great topic that not only leads to different and opposing conclusions, but also that stimulates passions and feelings from proponents of both camps. Invite outstanding speakers, both knowledgeable in the field and able to engage with the audience. Ensure that the audience itself is on a level playing field with the speakers. Get panelists to speak on topics that genuinely add value and new information to this qualified audience. There. You have the formula for an unforgettable pair of hours.

This is a precise description of Session One of the ICGN/Stanford Rock Center Academic Practitioner Workshop.

The panel discussed the matter of differential ownership rights, focusing on two excellent new studies on the topic, and was complemented by Professor Joseph Grundfest from the Stanford Law School and by Eugenia Jackson, from Allianz Global Investors, as discussants.

Professors Steven Davidoff Solomon and David Berger presented their study on “Tenure Voting and the US Public Company”. While structured as an academic working paper, the authors themselves described their work as a policy paper: a proposal to rethink ownership structures of American companies. In their view, rewarding long-term investors with increased voting power is the best way to fight short-termism and to depart from the dichotomy of single class versus multiple class ownership structures. Tenure voting would have to be approved by a majority under the existing one share, one vote structures, and the benefits of increased voting power would be available to all those willing to hold their shares. Operational challenges are addressed by pointing to the blockchain technology, which may very soon allow of real time identification of beneficial owners.

One of the discussants did not hide his positive view of the authors’ proposition. According to Professor Grundfest, there is no reason to bar experimentation of these ownership structures. This view was not shared by the other discussant, Eugenia Jackson, or by members of the audience. Ms. Jackson emphasized that such experimentation would be done with “other people’s money” (i.e., the beneficiaries), and therefore fiduciaries could not support it – unless there were unequivocal signs that it would be positive for shareholders – which is not the case.

Besides, in her opinion, the problem with exotic capital structures is not the inherent unfairness of the existence of “haves and have nots”. The problem was that any divergence between political power and economic interest tend to create conflicts of interests that are detrimental to the long-term interests of shareholders.

Comments were also made to the fact that other countries allowed flexibility in their capital structures, with terrible results. Markets could converge into a “bad equilibrium” of disenfranchised securities, since a small group of insiders would be very interested in getting such structures approved, whereas a silent majority of shareholders would not have the incentives to block such proposals.

The paper also seems to rest on a number of assumptions that are questionable – some even as pointed out by the authors themselves. Firstly, authors were fast to point that the proposal “is not about the problems of short-termism”. However, the only plausible explanation to go over the hassle of breaking the link between political and economic interests, while at the same time throwing sand in the workings of the discipline of the takeover market is a hidden assumption of the existence of short-termism – and that this is bad. The paper fails to discuss the potential consequences of the mechanism, such as the creation of entrenched control groups with very little economic interest (a five vote per share for long-term holders could allow full control with 10% of the capital). This also can result in the creation of structures that would make ownership structures even more opaque, such as a “secondary market” for high voting shares, held by investment banks under total return swap contracts. As Ms. Jackson put it, tenure voting seems to attract the “wrong kind of shareholder” -- namely the kind of shareholder the companies are trying to protect themselves from by using differential voting structures. She noted that “tenure voting will be a gift to activist investors. They just have to be a bit more patient, wait for 2-3 years, but have a lot more certainty of being able to get their proposals through”. In her view, this increases risks to long-term holders, by increasing uncertainty over who would control the corporations.

The other paper, “Controlled Companies in the Standard & Poor’s 1500” was presented by Patrick McGurn, from ISS. This is, as the presenter put it, a “practitioner’s paper”, and not so much an academic one.

The paper does an empirical investigation of key metrics affecting companies on the S&P 1500, dividing them into non-controlled companies, controlled companies and controlled companies with multiple share class structures. Dependent variables include metrics such as total shareholder return, revenue growth, return on equities, dividend payout, and prevalence of related party transactions, board diversity, and CEO pay.

With very few exceptions, the data points to worse metrics in the case of controlled companies – and more so for those with dual share classes – than for non-controlled companies. At first sight, the paper seems to suggest unequivocally that measures to enhance control are a bad idea. In the few cases in which the data did not show unequivocal differences in favor or either company group, the presenter interpreted the finding saying that it denied the purported benefits of dual share class structures to benefit long-term shareholders.

Professor Grundfest, however, made important and correct comments related to limitations of the work. Firstly, he pointed to the absence of statistical tests, which compromises the study’s conclusions. He warned institutional investors not to take decisions based on data whose significance was not proved. He also criticized the apparent use of equal weight data instead of market cap weighted – especially for variables such as total shareholder returns. Finally, he suggested that the paper lacked multivariate analysis and the possibility of defining causality.

Mr. McGurn countered that such rigorous statistical analysis was not the objective of the study, and that further analysis could be performed with the data that was made available by the authors.

All told, the debate curtailed enriched the audience’s understanding of this important topic, and suggested paths for further studies.

Session Two: Shareholder Responsibilities

How do investment styles affect stewardship responsibilities?

Ian Appel, Carrol School of Management, Boston College: “Passive Investors, Not Passive Owners”

- Discussant: **Michelle Edkins**, BlackRock, US
- Discussant: **Deborah Gilshan**, Railpen Investments, UK

The issue

This session also relates directly to another ICGN policy priority: “making successful stewardship a reality to support sustainable financial markets”. The recent launch of ICGN’s Global Stewardship Principles reflects this priority, and it is one of ICGN’s key initiatives to develop an overarching global framework to identify key principles of investor stewardship. The ICGN Principles identify investor governance as a key first principle to ensure appropriate stewardship down the asset chain, by both asset owners and asset managers. But stewardship can be resource intensive. It can be difficult to understand or measure how stewardship costs are offset by the benefits, and there may be a “rational reticence” by some investors to invest in stewardship resources when they can easily freeride on the efforts of others. This is especially the case with passive funds— which often have large and very diverse holdings in such volumes that may not readily allow for each company in the portfolio to receive significant attention.

Important questions:

- How does, or how should, investment style (for example active versus passive) influence stewardship activities?
- Do investors have the right business models and the right capabilities to make stewardship work effectively?
- How can passive funds with limited resources most effectively apply these resources to large index portfolios?

Session Report

Rapporteur: **Peter Montagnon**, Institute of Business Ethics, UK

The session discussed a paper, “Passive Investors, not passive owners,” by Ian Appel of Boston College and Todd Gormley and Donald Keim of the Wharton School, University of Pennsylvania. This examines the impact on corporate governance of the growing share of the equity market that is held by passive funds.

According to the abstract:

Passive institutional investors are an increasingly important component of U.S. stock ownership. To examine whether and by which mechanisms passive investors influence firms’ governance, we exploit variation in ownership by passive mutual funds associated with stock assignments to the Russell 1000 and 2000 indexes. Our findings suggest that passive mutual funds influence firms’ governance choices, resulting in more independent directors, removal of takeover defences, and more equal voting rights. Passive investors appear to exert influence through their large voting blocs, and consistent with the observed

governance differences increasing firm value, passive is associated with improvements in firms' longer-term performance.

Presentation

Introducing the paper Ian Appel said most of the academic literature that looks at the role of investors on corporate governance focuses on the impact of active investors. It has been rare for researchers to address the behaviour of passive investors. Yet their role has been growing. Between 1998 and 2014, their ownership share of the US stock market had risen from less than 10% to over 30%. This prompted the question of whether these investors are “lazy” as is often thought to be the case, or whether their actions do have an impact on corporate governance.

Passive funds apparently had little incentive to active stewardship. In addition, they might not have much influence over companies since they cannot sell their shares. On the other hand, their inability to sell might make them more interested in governance as a means of protecting value for clients. In this, they could be driven by their fiduciary duties. The paper also considered whether passive funds achieved an impact through the power of their own voice or because they could throw their weight behind initiatives undertaken by activist investors.

The research aimed to isolate the impact of ownership by looking at stocks in the upper end of the Russell 2000 over a period from 1998 to 2006 as these stocks were likely to have a high weighting of capital owned by passive funds, while also being subject to shifts in ownership patterns as they moved in and out of the index in the regular annual adjustment. It was noted, however, that correlation does not imply causality.

The research concluded that passive funds had a positive impact on governance in a number of ways. Companies with high passive ownership were likely to have more independent directors and fewer anti-takeover measures. Passive investors were more likely to vote against management and support shareholder governance proposals. Also, the research found that a high level of passive ownership was related to fewer interventions by activists, possibly because the companies had responded to concerns voiced by these passive investors. Finally, passive ownership was associated with better long-term performance. All of these findings highlighted the importance of use of voice by passive investors.

Response by discussants

Two investor discussants were then invited to comment: Michelle Edkins, an executive at BlackRock, a large US passive house, and Deborah Gilshan who is responsible for governance and stewardship at Railpen, a UK based asset owner.

The discussants welcomed the research and said its findings did not appear controversial. It might have been helpful to look at large holdings by unlisted investors such as pension funds as well as commercial passive funds because that would have added to the universe. Also it was likely that the impact of passive owners would have increased since 2006 and research covering a more recent period might produce more striking results.

It was acknowledged that there was not much financial incentive on passive funds to get involved in governance, but recognised that to do so was part of their fiduciary duty. Also the scale of the holdings brought influence, so the voice of passive owners was more likely to be heard. Meanwhile institutional investors now have access to large amounts of data which enables even those with very large portfolios to single out underperforming companies and prioritise their engagement efforts.

In the background were also a number of factors, including increasing shareholder rights such as say on pay and the greater current tendency of large investors to support activist funds compared with earlier periods when they rarely spoke to each other.

However it was questionable whether a tendency to vote against management was a good indicator since investors preferred to engage and resolve issues before the vote. Because they

are locked in they could defer a hostile vote but signal an intention to vote against management the following year if problems were not resolved. Shareholders needed to collaborate with each other on governance issues to make this kind of dialogue work.

Asset owners, who are long-term investors, prefer to emphasise voice rather than exit, but believe that the quality of the dialogue is more important than voting. There was an increasing need to broaden the dialogue beyond financial issues to stakeholder questions that affected the company's franchise or licence to operate. However, it was noted that shareholders are not homogenous. The respondents also noted that there was a difference between large cap and small cap companies. In the latter, active shareholders were likely to play a much larger role.

In response, Appel noted that the research clearly showed that as passive ownership goes up, support for management proposals goes down. However, this could reflect the fact that new passive investment holdings were purchased from retail investors who were much more likely to vote with management in the first place. He said the research team planned to do a follow-up using a more recent time period.

Floor discussion

There were several comments from the floor. It was suggested that the growing role of large passive funds in governance could produce a high level of concentration in ownership of equities. As mentioned in the previous discussion on tenured voting, this might be controversial. It was important therefore that passive investors used their power wisely and in particular that the quality of their dialogue with companies was high. Another risk was that such concentration of shareholder power and its effective use by institutions might lead to further pushback by companies along the lines of the current proposed legislation aimed at hobbling the influence of proxy agencies.

Another questioner asked whether the team was going to do more work on correlation with regard to the impact on different aspects of governance. It was noted that the research suggested a correlation between passive ownership and better long-term performance but did not single out why.

Another raised the issue of passive investors which also had active products. These might be underweight in some shares in which the passive fund was intervening. This would create a conflict. The representative of one such fund said that this was addressed by having a firm policy by which the engagement team decided on where to focus and then did so across the firm's entire holding regardless of whether some parts of the firm had a short position.

Appel said other researchers had looked at the relationship between active funds and activists and found evidence of "wolf packs." Reference in the discussion was made to the Pershing Square letter in which that firm's founder Bill Ackman had accused passive funds of damaging capitalism by voting in favour of DuPont in a proxy contest. This had reportedly caused a loss of value when the initiative failed to pass. However, it was suggested that the fall reflected the decision by smaller "me-too" activists to sell out when the failure of the vote to pass caused DuPont's shares to fall.

Finally, one delegate asked how very large passive funds managed to address issues across the portfolio. There would be many companies which were of limited importance to such a fund, but where the fund is holding was of great importance to the company. It was argued that several factors come into play. First the absolute value of the holding mattered. Thus, a small holding in a company like Apple might be more important than a 10% holding in a mining company in Perth, Australia. But large funds do try to engage with companies where this was important to them. It was important that such engagement was focused and that it was not just concerned with compensation. Smaller companies seeking to engage with passive owners needed to make a good case for focused dialogue, explaining the reasons why they needed to have the conversation.

Session Three: Capital Allocation

Corporate cash positions, dividends, share buybacks. A “sneak peek” at new academic and practitioner research in process.

Protagonists:

- **Professor Laurie Simon Hodrick**, Columbia Business School, US
- **Jon Lukomnik**, IRRC Institute, US

Discussants:

- **Aeisha Mastagni**, CalSTRS, US
- **Peter Michelson**, CamberView Partners, US

The issue

Capital allocation is an important topic, but one that is probably not given enough attention in corporate governance circles, as compared with issues such as board effectiveness, shareholder rights, transparency and remuneration. But it is important to understand the links between corporate finance and corporate governance, particularly given the implications of large corporate cash positions, the impacts of share buybacks and dividend policy.

These questions are relevant to investors —both equity and fixed income. It can be difficult for external analysts to analyse company balance sheets with large cash positions without understanding the company’s long-term objectives and financial policies. And capital allocation also raises the issue of the role of the creditor in corporate governance vis-a-vis the shareholder, and how creditors—as providers of capital— may be affected by buybacks, dividends and liquid holdings.

Important Questions:

- What is an optimal cash position for a company?
- What is the board’s responsibility with regard to oversight of capital allocation decisions?
- What ethical questions are linked with share buybacks and when do they make sense?
- Dividends: how to balance long-term development needs with shareholders needs for returns?
- What are the key concerns of creditors with regard to capital allocation and corporate governance?

Session Report

Rapporteur: **Ric Marshall**, MSCI, US

Professor Hodrick opened the session with a presentation of preliminary key findings from her working research paper, *Corporate Cash Holdings and Capital Allocation Decisions*.

This research is designed to address the increasingly political question of whether firms hold too much cash and concludes that a one size policy does not fit all.

The author first highlighted the number of campaigns by activist shareholders over the past 10 years, aimed at companies they believed to be holding excess cash. Such campaigns regularly demanded the return of that cash to shareholders in the form of either dividends or share buybacks, and were frequently successful in achieving that goal.

The author also cited figures provided by Moody’s, however, indicating that actual excess cash holdings may be concentrated among a relatively small number of companies in the US market:

- At the end of 2015, US non-financials held over \$1.68 trillion USD in total cash
- Just 50 companies hold 68% of this total
- Just 10 companies hold 40%
- Just 5 tech companies hold 30%
- Apple alone holds 12.8% (93% of which was held outside the US)

From here the presentation turned to a brief review of past views and research regarding the appropriate use of excess cash. This background highlighted a number of reasons why companies legitimately might want to hold onto such cash, including Keynesian motives and insights from corporate finance agency theory, option pricing, and taxation, followed by a comprehensive 20 year visualization of capital allocation practices among the S&P Composite 1500 firms. This detailed history showed that a steady increase in dividends and share buybacks from 29% of total capital allocations in 1994 to 48% in 2014 has been accompanied by a similarly steady increase in capital expenditures, with R&D in 2015 reaching its highest level as a percentage of GDP in US history. Mergers ebbed and flowed in waves.

Professor Hodrick then highlighted how even the four firms that had repurchased the most shares in 2014, Apple, IBM, Exxon Mobil, and Intel, were actually surprisingly different in their cash holdings and capital allocation decisions.

Preliminary research was presented which identified those key factors determining a firm's target cash holdings. The difference between a firm's predicted and actual cash holdings, its excess cash holdings, can then be used to develop and execute its optimal strategic capital allocation policy.

This research indicates that a majority of companies engaged in large buyback programs are not allocating cash to such programs in lieu of other options, such as R&D or infrastructure spending, but were spending appropriately in these areas as well, based on the specific strategic needs and priorities of each individual firm. This was a key finding of her report, and strengthens support for buybacks as an appropriate and effective strategic board and management tool.

The author introduced this finding by first highlighting the number of campaigns by activist shareholders over the past 10 years, aimed at companies they believed to be holding excess cash. Such campaigns regularly demanded the return of that cash to shareholders in the form of either dividends or share buybacks, and were frequently successful in achieving that goal.

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Jon first noted that buybacks have accounted for 47% of US companies' income since 2011, up from 23% in the early 90s and less than 10% in the early 80s. He then explored the question, "How do directors view buybacks?" According to the Tapestry findings, directors generally believe that decisions regarding buybacks should be based on their fit with company strategy, which will vary considerably between companies, but which, according to Tapestry Network's Richard Fields, come down to one of four main reasons. The first of these is to return capital to shareholders. The second is to invest in the company's shares, based on the perceived difference between current share price and intrinsic value. The third is to offset dilution, and the fourth is to alter the company's capital structure, to better align the company's leverage profile with its business strategy.

Jon also highlighted instances where share buyback activity using excess cash might not be so well aligned with company strategy or shareholder interests, or reflected on the inability of current management to identify a more effective use of such cash.

Of particular concern are those situations where share buybacks may have been used to support higher levels of CEO and other executive compensation, by providing a short-term boost to the company's share price relative to peers. Such buybacks would be of particular concern in those cases where management's long term equity incentive targets are explicitly tied to share price related metrics such as EPS or TSR.

Investors are also likely to be wary of the potential use of share buybacks as a potential takeover defense, to shield an entrenched board and management from what they view as hostile offers.

More difficult to evaluate may be those instances where current boards and managers are simply unable to devise creative strategic alternatives. Such companies may be especially susceptible to campaigns by shareholder activists.

Comments by the discussants and from the floor were generally supportive of both presentations, which appeared to be regarded as being complimentary rather than conflicting, and broadly considered and informative rather than controversial.

The general consensus of the discussion was that, with a few specific exceptions, share buybacks shouldn't be viewed in a negative light unless the company is using unsustainable cash flow or, worse, subjecting the company to excessive leverage to do so. As long as the buybacks are well aligned with overall corporate strategy, no compelling reasons were identified to suggest that cash rich companies shouldn't use this mechanism as a means for returning capital to shareholders, for offsetting possible dilution, or for better aligning their the company's debt with overall strategy.

The exceptions included the key areas of concern identified by Mr. Lukomnik, including the use of share buybacks to facilitate higher realized executive compensation, or as an obvious takeover defense. As Professor Hodrick wrote in her summary, "These findings guide the managers and directors of each firm to take that firm's unique circumstances into account when determining its optimal cash holding and capital allocation policies," a statement which seems appropriate in describing not only her own research but the entire session as well.

Special mention must also be made of the additional work that Professor Hodrick has conducted in the interest of better understanding and even predicting cash holdings at specific companies, which are measured here as the ratio of cash and short-term investments to total assets. While still preliminary in nature, the predictive model and preliminary results presented here shows considerable promise, and should ultimately make a valuable contribution to our understanding of the underlying dynamics involved.

Session Four: Hedge funds and Disclosure

- **Colleen Honigsberg**, Stanford Law School, “The Surprising Benefits of Hedge Fund Disclosure Requirements”
- Discussant: **Mike Lubrano**, Cartica Capital, US
- Discussant: **Christianna Wood**, Gore Creek Capital, US
- Rapporteur: **Annalisa Barrett**, ValueEdge Advisors, US

The issue

The topic of hedge fund disclosure is potentially a limited one. While interesting unto itself it can also provide an example to raise broader questions that link disclosure with corporate governance more generally. Specifically, it considers how disclosure addresses agency problems between hedge fund managers and their clients as a matter of responsible investment practice. But there is a broader dimension. Disclosure is a regulatory policy option, as a less costly and more flexible alternative to enforceable rules and regulation. In the European Union, for example, the comply or explain approach places greater emphasis on disclosure than hard law regulation in terms of governance practices. This approach reflects the view that disclosure can potentially influence companies to behave in appropriate ways to conform to compliance expectations. But its teeth ultimately rest with investors—as users of disclosure—as the ultimate discipline to flag and challenge companies in cases where disclosure is either poor or is not telling a positive story.

Important Questions:

- What is the applicability of this paper to other investors or sectors—or limited to hedge funds? How much can we extrapolate?
- What should components of disclosure be? Corporate governance codes? Stewardship codes?
- Does disclosure unto itself influence behaviours by investors or companies?

Session Report

Rapporteur: **Annalisa Barrett**, ValueEdge Advisors and University of San Diego, US

The presentation and panel discussion regarding the study entitled “The Surprising Benefits of Mandatory Hedge Fund Disclosure” focused on whether agency costs in this context can be best mitigated via mandatory disclosure, government inspections, or a combination of both. While the study and much of the discussion focused on this question in the context of hedge fund regulation, there is potentially broader applicability to public company disclosure as well.

The academic study for this panel was presented by Dr. Colleen Honigsberg, Assistant Professor of Law at Stanford Law School. The discussants were Christianna Wood of Gore Capital and Mike Lubrano of Cartica Capital, both of whom are experienced hedge fund executives.

Presentation of Academic Study

During her presentation, Dr. Honigsberg discussed the fact that academic research on disclosure in the United States often considers how disclosure can be designed to present information most effectively. Questions such as the following are considered: Is the disclosure currently required optimal in terms of content and frequency? What is the best presentation of

the information? Are there potential negative consequences that may arise from disclosure requirements?

Past academic studies on public companies have “found that mandatory corporate disclosure can reduce the cost of capital, provide increased liquidity, and decrease financial misreporting.” However, there are also potential negative consequences to such requirements.

Often, the entities subject to mandatory disclosure cite high compliance costs necessary to fulfill the disclosure requirements. For example, many corporate issuers are currently struggling with increasing demands on their staff to complete the numerous requests for information regarding their sustainability practices.

Another potential negative raised by Dr. Honigsberg is the possibility that the frequency of required reporting leading to managerial myopia. In other words, do quarterly earnings statements cause managers to make decisions that lead to short-term results at the expense of long-term projects? Of course, this is the persistent issue of short-termism that many in the governance community have deliberated for decades.

Dr. Honigsberg concluded that “[u]ltimately, many in the academic community argue that mandatory disclosure provides positive benefits—but that the frequency, and content, of current U.S. disclosure requirements may not be optimal.” In order to further the examination of this important issue, Dr. Honigsberg’s study explored whether government inspections, disclosure requirements, or a combination of both most effectively reduces misreporting by hedge funds.

Specifically, the study examined the disclosure required by hedge funds on Form ADV, which “is the uniform form used by investment advisers to register with both the Securities and Exchange Commission (SEC) and state securities authorities.”² Hedge fund disclosures – rather than corporate disclosures – were selected for this study due to the unique regulatory changes the industry went through between 2004 and 2010. In general, subsets of the hedge fund industry were subject to federal regulation requiring disclosure on Form ADV at various times during these years, which allows for examination of changing disclosure requirements for different groups of hedge funds.

Dr. Honigsberg’s study found evidence that regulation reduced misreporting by the hedge funds, and that this decrease in misreporting was driven by the change in the disclosure rules. In the paper, she draws upon these findings to cautiously suggest that “regulatory efficacy [for public corporations] might benefit from increased focus on disclosure rules and less on enforcement efforts.”

Comments from Discussants

The first discussant, Christianna Wood—who worked in the hedge fund industry for 14 years and currently serves as the Audit Committee Chair of a hedge fund and as a seeder of hedge funds--was surprised by the assumption in the study that there is a problem of misreporting by hedge funds. In her experience, and in the opinion of other practitioners with whom she discussed the matter, there is not much misreporting by hedge funds. Dr. Honigsberg explained that many of the funds in her study universe were smaller funds which were not audited annually and had high failure rates.

Ms. Wood turned to the question of whether disclosure is better than regulation or government inspections in the eyes of the practitioners. Based on her experience working in the investment community as an analyst, she opined that regulation is not favored over disclosure by analysts. She also drew upon her experience as a member of the Audit Committee of a publicly-traded company and noted that she has seen the costs resulting from increased regulation. She also noted (presumably referring to the SEC’s Disclosure Effectiveness Initiative) that the SEC is working on removing meaningless and duplicative disclosure from the rules governing Form 10K, which are applicable to public companies.

² See: <https://www.sec.gov/answers/formadv.htm>

The second discussant, Mike Lubrano, currently works at a hedge fund that invests in emerging market equities. He noted that as required by its agreements with its (mostly institutional) clients, his fund outsources the calculation of its holdings and performance, which is the predominant practice among hedge funds with institutional investors. He also stated that his fund voluntarily registered with the SEC and has disclosed on Form ADV from the outset of its operations, again because this was expected by its core investors. He speculated that perhaps funds with a more retail client base may view Form ADV disclosures as a marketing tool, and therefore might be tempted to be less than fully truthful. He also supported the view that the appointment of a dedicated compliance officer probably does encourage better fund governance, noting that the introduction of a compliance officer at his firm resulted in a fresh look at his funds governance documentation and practices and more systematic and consistent oversight.

Discussion from the Audience

One of the key topics addressed during the discussion from the audience was the importance of considering the intended audience when examining the effectiveness and adequacy of disclosure requirements. Ms. Wood made the important point that disclosure “cannot be good for everyone all of the time.” Mr. Lubrano described the fact that the intended audience for his fund is a group of approximately 30 sophisticated investors. Therefore, there is a more limited audience for their disclosure than there might be for other types of disclosure. Both of these points are important to consider for corporate disclosures, as many large companies are realizing that their regulatory filings have a much broader audience than ever before due to a combination of increased online access and greater scrutiny by the investing public and other stakeholders.

Another key topic brought up during the discussion was the issue of consistency. It was noted that the information provided by the hedge fund on the Form ADV must match any other materials given to the fund’s current or potential investors. This issue can be compared to the challenges that companies face in ensuring that the information reported in regulatory findings is consistent with what is reported in voluntary disclosures, during analyst calls, in interviews with the press, etc.

Appendix



ICGN

International Corporate Governance Network

ROCK CENTER FOR CORPORATE GOVERNANCE STANFORD

**ICGN –Stanford Rock Center Academic/Practitioner Day
Hosted by Charles Schwab, San Francisco
30 June 2016
The Schwab Center, 211 Main Street, San Francisco, CA 94105**

Promoting long-term thinking and behaviour for sustainable capital markets: what are the theories and what is the evidence?

Agenda

08:45– 09:15 **Registration/Coffee**

09:15 – 09:30 **Welcome/introductory remarks**

- **Omar Aguilar**, Chief Investment Officer, Charles Schwab

- **George Dallas**, Policy Director, ICGN
- **Dan Siciliano**, Stanford Rock Center for Corporate Governance

09:30 – 11:00 **Session One: shareholder rights. Are differential ownership rights a good thing for companies and investors?**

- **Steven Davidoff Solomon**, Professor of Law, University of California at Berkeley, & **David Berger**, Partner, Wilson Sonsini Goodrich & Rosati, “Tenure Voting and the U.S. Public Company”
- **Edward Kamonjoh**, ISS, “Controlled Companies in the Standard & Poor’s 1500, A Follow-up Review of Performance & Risk”. Paper to be presented by **Patrick McGurn**, ISS
- Discussant: **Professor Joseph Grundfest**, Stanford Law School, US
- Discussant: **Eugenia Jackson**, Allianz Global Investors, UK
- Rapporteur: **Mauro Cunha**, Mauro Cunha, AMEC-- Brazilian Association of Capital Market Investors, Brazil

11:00- 11.15 **Coffee break**

11.15-12.15 **Session Two: shareholder responsibilities. How do investment styles affect stewardship responsibilities?**

Ian Appel, Carrol School of Management, Boston College: “Passive Investors, Not Passive Owners”

- Discussant: **Michelle Edkins**, BlackRock, US
- Discussant : **Deborah Gilshan**, Railpen Investments, UK
- Rapporteur: **Peter Montagnon**, Institute of Business Ethics, UK

12.15- 13.00 **Lunch** (sandwiches and informal networking)

13:00 -14:00 **Session Three: Capital allocation: corporate cash positions, dividends, share buybacks. A “sneak peek” at new academic and practitioner research in process.**

Protagonists:

- **Professor Laurie Simon Hodrick**, Columbia Business School, US
- **Jon Lukomnik**, IRRC Institute, US
- Discussant: **Aeisha Mastagni**, CalSTRS, US
- Discussant: **Peter Michelson**, CamberView Partners, US
- Rapporteur: **Ric Marshall**, MSCI, US

14:00– 14:45 **Session Four: hedge funds and disclosure**

- **Colleen Honigsberg**, Stanford Law School, “The Surprising Benefits of Hedge Fund Disclosure Requirements”
- Discussant: **Mike Lubrano**, Cartica Capital, US
- Discussant: **Christianna Wood**, Gore Creek Capital, US
- Rapporteur: **Annalisa Barrett**, ValueEdge Advisors and University of San Diego, US

14:45 – 15.00 **Closing remarks**

- **Kerrie Waring**, Executive Director, ICGN
- **Amanda Packel**, Stanford Rock Center for Corporate Governance

Presenters, Discussants and Rapporteurs *(In order of programme appearance)*



ICGN

International Corporate Governance Network

Omar Aguilar, Chief Investment Officer, Charles Schwab

Omar Aguilar joined Charles Schwab Investment Management, Inc. (CSIM) in April 2011 as senior vice president and Chief Investment Officer, Equities. He is responsible for CSIM’s equity and asset allocation mutual funds, exchange traded funds (ETFs) and separately managed accounts. Aguilar has more than 20 years of broad investment management experience in the equity markets, including managing index, quantitative equity, asset allocation and multi-manager strategies.

Prior to joining CSIM, Aguilar was with Financial Engines, where he was responsible for managing more than \$40 billion in assets from leading retirement plan sponsors in the defined contribution market. Prior to that, he served as head of quantitative equity for ING Investment Management, building and developing the group and managing more than \$20 billion in assets with 15 global active, index and enhanced index strategies for pensions funds, variable annuities and mutual funds. Aguilar also served as the head of quantitative research for Lehman Brothers’ alternative investment management business, and as a director of quantitative research and portfolio manager with both Merrill Lynch Investment Management and Bankers Trust.

Aguilar received a B.S. degree in actuarial sciences and a graduate degree in applied statistics from the Mexican Autonomous Institute of Technology (ITAM). He was a Fulbright Scholar at Duke University’s Institute of Statistics and Decisions Sciences, where he earned his M.S. and Ph.D.

George Dallas, Policy Director, ICGN

George Dallas was appointed Policy Director at the International Corporate Governance Network in 2014, where he coordinates ICGN’s governance policies and committees, and plays an active role in ICGN’s regulatory outreach. As a member of ICGN since 2000, he served as Chairman of its Business Ethics Committee from 2009 to 2014. George is a member of the Steering Committee of the Centre for Corporate Governance Research at Cass Business

School, where he teaches an executive education course in corporate governance. He also works as an independent advisor. Recent projects include an assignment for the World Bank to develop a stewardship code in Kenya and a study of European Union corporate governance policy on behalf of the CFA Institute.

Previously, George served six years as Director of Corporate Governance at F&C Investments (now BMO Global Asset Management) in London (£100 billion in assets under management), where he led F&C's global policies relating to corporate governance, including proxy voting and engagement matters. Prior to joining F&C in 2008 George was a Managing Director at Standard & Poor's, where he held a range of managerial and analytical roles in New York and London over a 24 year period, including as head of Standard & Poor's European credit rating operations, head of its London office, global head of emerging markets and as head of S&P's governance services unit. He also served on the boards of S&P affiliates in France and Spain. George began his career in corporate banking at Wells Fargo Bank, and is published widely in the fields of corporate governance and responsible investment, including the book "Governance and Risk" (McGraw-Hill, 2004).

He is a member of the Private Sector Advisory Group of the World Bank Group's Global Corporate Governance Forum, and is a member of the Corporate Governance Advisory Group of the Institute of Chartered Accountants of England and Wales.

George holds a BA degree, with distinction, from Stanford University and an MBA from the Haas School of the University of California at Berkeley.

Dan Siciliano, Stanford Rock Center for Corporate Governance

F. Daniel Siciliano, JD '04, is a legal scholar and entrepreneur with expertise in corporate governance, corporate finance, and immigration law. He assumes a variety of leadership roles at the law school, including faculty director of the Arthur and Toni Rembe Rock Center for Corporate Governance, associate dean for executive education and special programs and co-director of Stanford's Directors' College. He is also the co-originator of the OSCGRS (Open Source Corporate Governance Reporting System) Project. Previously, Siciliano was a teaching fellow for the law school's international LLM degree program in Corporate Governance and Practice and executive director of the Program in Law, Economics and Business. He is the senior research fellow with the Immigration Policy Center and a frequent commentator on the long-term economic impact of immigration policy and reform. His work has included expert testimony in front of both the U.S. Senate and House of Representatives. Prior to joining Stanford Law School, Siciliano co-founded and served as executive director of the Immigration Outreach Center in Phoenix, Arizona. He has launched and led several successful businesses, including LawLogix Group—named three times to the Inc. 500/5000 list. Siciliano serves as a governance consultant and trainer to board directors of several Fortune 500 companies and is a member of the Academic Council of Corporate Board Member magazine.

Steven Davidoff Solomon, Professor of Law, University of California, Berkeley

Professor Davidoff Solomon's research focuses in on financial regulation, hedge funds and private equity, mergers and acquisitions, deals and deal theory, and jurisdictional competition. He has a particular interest in international issues and interdisciplinary research in law and finance.

Professor Davidoff Solomon's book *Gods at War: Shotgun Takeovers, Government by Deal and the Private Equity Implosion*, an exploration of modern-day deals and deal-making, was released on October 5, 2009. His prior scholarship can be accessed on SSRN.

Professor Davidoff Solomon writes a weekly column for *The New York Times* as *The Deal Professor*, which primarily focuses on mergers and acquisitions. He also writes regularly for *The New York Times DealBook*, in trade journals, such as *The Deal*, lectures, has testified before

the United States Senate, and is frequently quoted in the national media on issues related to our capital markets and mergers and acquisitions.

David Berger, Partner, Wilson Sonsini Goodrich & Rosati

David Berger advises directors, companies, and shareholders on issues of corporate governance, shareholder activism, fiduciary duties, and M&A. For more than 25 years, David has been a leader in Silicon Valley on issues of corporate control, proxy contests, and merger litigation. He is a prominent author and speaker on these issues and has taught classes on corporate governance and shareholder litigation at law schools across the country, including Harvard Law School, Stanford Law School, Tel Aviv University, and Duke University School of Law.

David has been the lead trial lawyer in numerous corporate control transactions and securities litigations in state and federal courts in Delaware, California, New York, and elsewhere. Some recent examples include representing TIBCO and its directors in its sale to a private equity group, including defeating a motion for preliminary injunction and winning a motion to dismiss with prejudice; representing a private equity consortium in the first expedited arbitration in the Hong Kong International Arbitration Center, which resulted in a complete victory for David's clients (including the award of attorneys' fees); representing Chevron in the first case in Delaware finding in favor of forum-selection bylaws; advising and representing Google in connection with its precedent-setting adoption of its non-voting stock; and representing ISSI in response to an activist campaign, its subsequent sale following a public auction process, and then successfully defending the company in litigation challenging the buyout process.

David is actively involved in numerous civic matters. He served as general counsel to the Super Bowl 50 Host Committee and is a director of the Wildlife Conservation Network, the Smuin Ballet, and the Bay Area's classical music station, KDFC. David has also served as lead trial counsel in many high profile pro bono cases—including cases in which WSGR was honoured by organizations such as the Equal Justice Society, the Lawyers Committee for Civil Rights, and the American Civil Liberties Union—and has served as co-counsel to amici filing briefs in the Fisher v. University of Texas cases in the U.S. Supreme Court. He currently serves on Aspen Institute's Business and Society Program board of advisors.

Joseph Grundfest, William A Franke Professor of Law and Business, Stanford Law School

Joseph Grundfest, a former Commissioner of the United States Securities and Exchange Commission, is the William A. Franke Professor of Law and Business at Stanford Law School. His scholarship has been published in the Harvard, Yale and Stanford Law Reviews. The National Law Review recognizes him as among the 100 most influential attorneys in the nation, and Directorship lists him as among the 100 most influential persons in corporate governance. Professor Grundfest is also founder and do-director of Stanford's Directors' College and co-Director of the Rock Center on Corporate Governance. He is a director and co-founder of Financial Engines Inc.

Eugenia Jackson, Director, Senior Governance Specialist & ESG Analyst, Allianz Global Investors

Eugenia is a Director, Governance and Sustainable Investment at F&C Investments. Eugenia is responsible for F&C's corporate governance engagement programme, public policy matters related to corporate governance and shareholder rights, development of F&C's voting policies and proxy voting oversight. Eugenia also leads on the integration of environmental, social and governance (ESG) factors into the investment process across F&C's investment funds. Eugenia is a member of ICGN's Shareholder Rights Committee, of the Governance and Engagement Committee of the Investment Association, the Corporate Governance Expert Group of the

Quoted Companies Alliance, and is an active member of a number of investor groups and networks. Prior to joining F&C, Eugenia worked for Governance for Owners as Stewardship Services Manager, responsible for governance analysis, engagement and policy development; for Manifest Information Services as a policy analyst; and for Pension Investments Research Consultants (PIRC) as a researcher. Eugenia has written on corporate governance matters, covering issues related to listing standards, board diversity, directors' liabilities, cross-border voting issues, and director remuneration.

Mauro Cunha, Chief Executive Officer, AMEC

Mauro Cunha is the CEO of the Associação de Investidores no Mercado de Capitais - AMEC ("the Capital Markets Investors' Association"), a position which he has held since April 2012. He has been participating on board of listed corporations since 1999 – he is currently a director of CESP, Mahle Metal Leve and Par Corretora. Mr. Cunha became the first independent director on the Board of Directors of Petrobras, nominated by minority investors in 2013. He also participated on the Audit Committee of that company.. He has spent much of his career advising and consulting on corporate governance and asset management, holding different positions in companies such as Opus Gestão de Recursos, Mauá Investimentos, Franklin Templeton Investimentos (Brasil) Ltda, Morgan Stanley Asset Management and Deutsche Morgan Grenfell, among others. He also served as Chairman of the Board at the Instituto Brasileiro de Governança Corporativa (IBGC), between 2008 and 2010. Mr. Cunha has been a Chartered Financial Analyst since 1997, and he holds an MBA from the University of Chicago, as well as a bachelor's degree in Economics from PUC-Rio. He is a lecturer in courses of Corporate Governance.

Ian Appel, Assistant Professor of Finance, Carrol School of Management, Boston College

Ian Appel is an assistant professor of finance at Boston College. His primary research interests are corporate finance, law and finance, and institutional investors. Ian received his PhD in finance from the Wharton School at the University of Pennsylvania. He was awarded the Michael J. Barclay Young Scholar Award from the Financial Research Association, and his research has been published in the Journal of Financial Economics.

Michelle Edkins, Managing Director, Corporate Governance and Responsible Investment, BlackRock

Michelle Edkins is a Managing Director at BlackRock and Global Head of its Investment Stewardship team of 22 specialists based in five key regions internationally. In that role, she is responsible for the team's engagement and proxy voting activities in relation to the companies in which BlackRock invests on behalf of clients. She also serves on the firm's Human Capital and Government Relations Steering Committees.

Michelle is an active participant in the public corporate governance debate and regularly speaks and writes on the importance of good stewardship for company performance. She was named in the NACD (the US National Association of Corporate Directors) Directorship 100 Governance Professionals list for the past four years. She is also a Fellow of the Aspen Institute's First Movers program and a former Chairman of the Board of Governors of the International Corporate Governance Network. She is an alumna of BlackRock's Women's Leadership Forum and its Enterprise Leadership Program. She currently serves on the Advisory Council of the International Integrated Reporting Council and is a member of the steering group of the US chapter of the 30% Club, a market initiative to increase the number of women on boards and in senior management.

Prior to joining BlackRock in 2009, Michelle was Managing Director at Governance for Owners, an independent partnership offering products that support responsible long-term share ownership. She started her corporate governance career in the UK in 1997 at Hermes Pensions Management, where she spent eight years, initially as the head of the corporate governance team and thereafter as Director of Institutional Relations. An economist by training, Michelle has also worked for New Zealand's Reserve Bank and the British High Commission in Wellington. She lives in San Francisco with her husband and two children.

Deborah Gilshan, Head of Sustainable Ownership, Railpen Investments

Deborah leads Railpen's work on active ownership and sustainable investment strategies to fully integrate the consideration of ESG factors across the £22 billion global portfolio of assets.

Deborah serves on the ICGN's Business Ethics Committee and is a member of the Steering Committee of the 30% Club, a global initiative to promote diversity, and co-chairs the institutional investor group. She is a member of Steering Group of the UK Financial Reporting Council's project on corporate culture. Deborah is a Fellow of ICSA: The Governance Institute and holds the CFA's Investment Management Certificate.

In October 2011, Deborah founded The 100% Club, which seeks to promote the importance of networking for career advancement and personal development and to demonstrate the value of women-only networks as powerful forces for change.

Deborah started her governance career in December 2000 at the UK's Co-operative Insurance Society. She read Mathematics and English at the University of Manchester and previously worked in corporate tax at Ernst & Young.

Peter Montagnon, Associate Director, Institute of Business Ethics

Peter is Associate Director of the Institute of Business Ethics, member of the Corporate Governance Advisory Board of the Norges Bank Investment Management, and member of the board of the Hawkamah Institute, Dubai. He previously held senior positions at the Financial Reporting Council, the Association of British Insurers and, as a journalist, at the Financial Times. He is a past chair of the ICGN, a past member of the European Corporate Governance Forum, and currently also serves on the Council of the Royal Institute of International Affairs.

Laurie Hodrick, A. Barton Hepburn Professor of Economics in the Faculty of Business, Columbia Business School & Visiting Professor of Law, Stanford Law School

Laurie Hodrick is the A. Barton Hepburn Professor of Economics in the Faculty of Business, Columbia Business School, and a visiting professor at Stanford Law School. Professor Hodrick has received many research awards, including the National Science Foundation Presidential Young Investigator Award, and many awards for teaching excellence, including the Columbia University Presidential Award for Outstanding Teaching. She was the Founding Director of the Program for Financial Studies at Columbia Business School from 2010-2015. Professor Hodrick was a Managing Director at Deutsche Bank from 2006-2008, as Global Head of Alternative Investment Strategies, and she ran a trading strategy for Deutsche Bank Alternative Trading from 2008-2009. She served as a Director/Trustee at Merrill Lynch Investment Managers from 1997-2006.

Jon Lukomnik, Executive Director, IRRIC Institute & Managing Partner, Sinclair Capital

Jon Lukomnik has served as executive director of the Investor Responsibility Center Institute (IRRCi) since 2008. He and the Board of Directors have led the organization to become a leading source of objective academic and practitioner research on an array of investment issues to enable investors, policymakers and stakeholders to make data-driven decisions.

Mr. Lukomnik has received the International Corporate Governance Network award for excellence in corporate governance, and the National Association of Corporate Directors (USA) twice named him one of the 100 most influential people in American corporate governance. Other awards include recognition by Ethishpere Magazine and Global Proxy Watch.

In addition to his responsibilities at IRRCi, Mr. Lukomnik is the managing partner of Sinclair Capital L.L.C., a corporate governance consultancy to the investment management industry, corporations and institutional investors. He writes a column for Compliance Week, and he is a member of the Standing Advisory Group of the Public Company Accounting Oversight Board and a trustee on the Van Eck family of mutual funds, insurance trusts and UCITs.

Previously, Mr. Lukomnik served as Deputy Comptroller for the City of New York and investment advisor to the New York City pension funds. He co-founded and served as a governor of the International Corporate Governance Network and chaired the executive committee of the Council of Institutional Investors (USA). Mr. Lukomnik is co-author of the award-winning book, *The New Capitalists: How Citizen Investors Are Reshaping the Corporate Agenda*. His new book, *Bonfire of the Nest Eggs: What's Wrong with the Finance Sector and How to Fix It*, written with co-authors Stephen Davis and David Pitt-Watson, will be published by Yale University Press in early 2016.

Aeisha Mastagni, Portfolio Manager Corporate Governance, CalSTRS

Aeisha Mastagni is a Portfolio Manager within the Corporate Governance Unit of the California State Teachers' Retirement System (CalSTRS), the nation's largest teacher retirement fund. Aeisha is responsible for working with a governance team to further CalSTRS' mission to secure the financial future and sustain the trust of California's educators. Aeisha's main areas of focus are the corporate engagement program, executive compensation, selecting and monitoring managers in the activist manager portfolio, and working with regulatory authorities on market-wide issues.

In 2012, Aeisha joined the Board of Directors at the Golden 1 Credit Union, the seventh largest credit union in the U.S. with more than \$8 billion in assets and over 600,000 members. Most recently, Aeisha joined the Board of the Council of Institutional Investors, an association of pension funds whose mission is to educate its members and the public about effective corporate governance and related investment issues.

Aeisha has a Bachelor of Science degree in Economics from the California State University, Sacramento and has successfully completed level I of the CFA Program.

Peter Michelsen, Partner, CamberView Partners

Peter Michelsen joined CamberView in March 2014 with more than a decade of experience advising boards and executive management teams involved in contested situations. Previously, Mr. Michelsen was a Managing Director in the investment banking division of Goldman, Sachs & Co., where he was a member of the Mergers & Acquisitions group and a core member of the shareholder activism defense group. At Goldman Sachs, Mr. Michelsen advised on complex M&A transactions and strategic advisory assignments, including shareholder activism, proxy fights and consent solicitations, hostile takeovers, and general corporate governance matters. Mr. Michelsen started his career at Merrill Lynch & Co., where he executed M&A transactions across a broad range of industries. He holds a J.D. from Harvard Law School and a B.A. from Claremont McKenna College.

Ric Marshall, Executive Director, MSCI

Ric is an Executive Director at MSCI ESG Research, which acquired GMI Ratings in 2014. Ric was named one of the top individual analysts in corporate governance by respondents to the Thomson Reuters Extel 2013 global survey, who also named GMI Ratings the top firm for independent governance research. Ric has been a guest speaker and panelist at numerous corporate governance, ESG and responsible investing conferences and meetings throughout the United States and Europe. He has written extensively on the subject of investing in corporate governance and ESG.

Colleen Honigsberg, Assistant Professor of Law, Stanford Law School

Colleen Honigsberg is an Assistant Professor at Stanford Law School, where her research is focused on empirical study of corporate governance and securities law. Before joining the faculty in 2016, Colleen received her Ph.D. from Columbia Business School and her J.D. from Columbia Law School. She has expertise in Accounting and previously worked as a Certified Public Accountant for PricewaterhouseCoopers Advisory Services and for Compass Lexecon. Colleen's research has been featured in periodicals such as the Economist, the Wall Street Journal, and the New York Times, and her work has been published in leading academic journals.

Mike Lubrano, Managing Director of Corporate Governance, Cartica Capital

Mr. Mike Lubrano is the Managing Director of Corporate Governance at Cartica Capital (www.carticacapital.com), an Emerging Markets fund manager with approximately US\$2.5 billion in assets under management. Cartica runs a concentrated, long-only portfolio of equity securities of publicly-traded companies, acquiring significant stakes and employing an "active ownership" approach. Cartica engages with portfolio company management and boards in a constructive and cooperative manner and applies its combination of capital and Emerging Markets and corporate governance experience to influence the direction of portfolio companies in ways that foster better performance and higher market valuations.

Prior to co-founding Cartica, Mr. Lubrano set up International Finance Corporation's corporate governance practice and served as Manager of IFC's corporate governance unit. He developed the IFC Corporate Governance Methodology, which is used to assess the quality of governance of potential IFC clients and to identify opportunities to add value by improving their boards, control environment, transparency and disclosure, and treatment of financial stakeholders. During his ten years at IFC, Mr. Lubrano designed governance turnaround programs for numerous companies in Latin America, Eastern Europe, the Middle East, Asia, and Africa. He was Advisor to Chile's Ministry of Finance in drafting that country's corporate governance reforms, assisted the São Paulo Stock Exchange in designing the Novo Mercado and was the co-organizer of the Latin America Corporate Governance Roundtable from 2000 to 2007.

Mr. Lubrano serves on the Corporate Governance Advisory Council of the U.S. Council of Institutional Investors and on the Advisory Board of the Mexico Institute of the Woodrow Wilson International Center for Scholars. Prior to joining IFC, he worked for the World Bank on the 1995 Mexican financial crisis and was an international securities lawyer with Cleary, Gottlieb, Steen & Hamilton, helping Latin American companies access international capital markets.

Mr. Lubrano received his A.B. Magna Cum Laude from Harvard College; his J.D. Cum Laude from New York University School of Law; and his M.P.A from Princeton University.

Christianna Wood, President of Gore Creek Capital, Ltd.

Ms. Christianna Wood, also known as Christy, CFA, has been Chief Executive Officer and President of Gore Creek Capital, Ltd. since August 2009. Ms. Wood served as the Chief Executive Officer of Capital Z Asset Management. Ms. Wood joined Capital Z Asset Management on March 17, 2008. She served as a Senior Investment Officer of Global Equity at California Public Employees' Retirement System and was responsible for implementing and managing investment strategy and policy for the system's publicly traded equity investments worldwide. She also oversaw CalPERS' hedge fund program, domestic long/short program, corporate governance, cash management, and manager development program. Prior to joining CalPERS in October 2002, she served as a Principal, Portfolio Manager, Director of Value Strategies, and Member of Management Committee at Denver Investment Advisors in Denver. She served as Chairman of the Board of International Corporate Governance Network from 2009 to 2012.

Annalisa Barrett, Senior Advisor, ValueEdge Advisors

A Senior Advisor at ValueEdge Advisors, Annalisa Barrett is a Clinical Professor of Finance at the University of San Diego's School of Business Administration. She teaches graduate courses in Corporate Governance and undergraduate courses in Financial Management, Financial Statement Analysis, and Personal Finance. Her research interests focus on corporate governance practices, board composition, and director demographics. She is the author of numerous reports and articles which have been published in a variety of practitioner journals. She has been also quoted in several periodicals and her research has been featured on the front page of the Wall Street Journal.

She is a member of Board of Directors of the Corporate Directors Forum, a San Diego-based a nonprofit founded in 1991 to promote high standards of professionalism and ethics in corporate governance. She serves on the Education Committee and is a co-author of, and presenter for, their Governance Academy director training courses.

Kerrie Waring, Executive Director, ICGN

Kerrie is responsible for delivering ICGN's extensive work programme of policy representation, international conferences, education and guidance across 50 markets. She has been instrumental in shaping ICGN's strategy to drive global governance reform over the past decade and has led rapid membership growth which today includes investors responsible for assets under management in excess of US\$26 trillion.

Prior to her appointment at ICGN, Kerrie directed high profile governance initiatives at the Institute of Chartered Accountants in England and Wales where she led a cross-Atlantic initiative focused on US-UK corporate governance. Earlier, she was international professional development manager at the UK Institute of Directors, where she established IoD International and the Global Director Development Circle (now known as the Global Network of Director Institutes).

Kerrie is a lead author of the IFC's Global Director Training Toolkit which has helped establish governance associations around the world and co-authored the Handbook on International Corporate Governance (2004), among a series of other publications. Kerrie was named Rising Star of Corporate Governance by the Millstein School of Corporate Governance and Performance at the Yale School of Management (2008). A chartered company secretary and fellow of ICSA, she holds a BA honors degree in international business and Japanese.

Amanda Packel, Deputy Director, Stanford Rock Center for Corporate Governance

Amanda joined the Stanford Rock Center for Corporate Governance in 2013. She is co-director of Directors' College, the leading executive education program for board members of publicly traded firms. Amanda serves on the board of directors of The Thirty Percent Coalition, a national organization promoting gender diversity on corporate boards, and on the board of the Silicon Valley Directors' Exchange (SVDX). In addition, Amanda speaks and has published on various corporate governance topics, including board composition and ethics, and she is co-author of *Leadership: Law, Policy, and Management*. Amanda previously practiced law at Covington & Burling and at Orrick, where she represented individuals and companies in SEC enforcement actions and federal criminal investigations and conducted internal investigations on behalf of audit committees. She received her A.B. in Economics from Princeton University and her J.D from the University of California, Berkeley School of Law.