Hugessen Consulting Dinner for Directors and Active Investors

New York City | November 2017

HUGESSEN CONSULTING

In November 2017, Hugessen Consulting hosted a dinner in New York City with investors and directors in our network to discuss and exchange perspectives on the ever-expanding role of investors in the governance of publicly-traded companies. Dinner was attended by a mix of experienced US and Canadian corporate directors and shareholder representatives across a spectrum of investing models: private equity, hedge fund, and active managers. We were also joined by members of our NYC-based partner, Steven Hall & Partners.

We summarize below select themes from the discussion:

Developing a Sound Strategy and Tying Compensation to It

- The importance to shareholders of having issuers articulate a strategy to create economic value for shareholders was discussed; once a sound strategy has been developed to achieve this goal, compensation design and metrics should follow
- There was much discussion about desirability from the shareholders' perspective for incorporating <u>return on capital metrics</u> in executive compensation programs to compliment growth metrics

Director Oversight

- The importance of engaged and independent-minded (from Management) directors was stressed as critical. There was caution around the pitfall of "group-think" in the boardroom. Directors' willingness to challenge management in a constructive way was identified as an important skill (and one that required support from fellow directors)

Director Led Engagement Between Directors and Shareholders

- Agreement from both directors and shareholders on the benefit of and need for meaningful discussion led by independent directors on important board-level topics (e.g. oversight of strategy, performance, executive compensation)

What the Shareholder Community Can Do

- Recognition that shareholders "have no one to blame but themselves" for sustained misalignment between company performance and executive pay; there has been limited action from institutional shareholders to use available tools (e.g. outreach to boards, and voting against directors and/or Say-on-Pay when there is no (or limited) responsiveness)