BOARD’S GUIDE TO TRUST

Building Trust with Institutional Investors

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The Changing Role of the Corporation in an Age of Accountability

2020 has tested the stewardship skills of company leaders and directors alike.

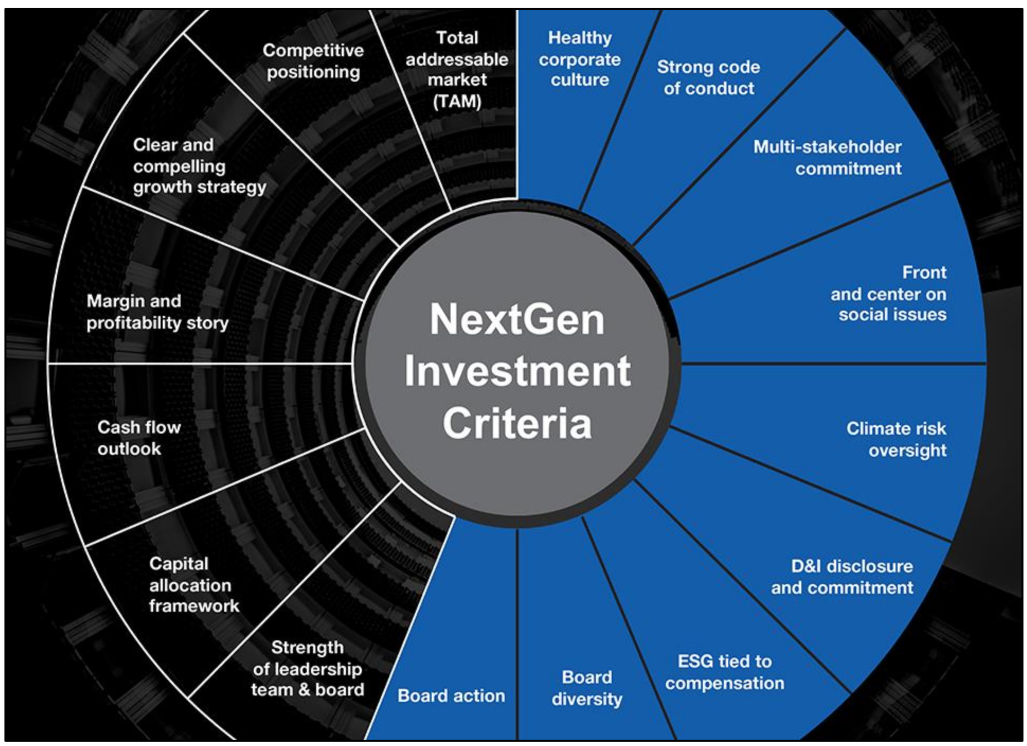
A pandemic that tanked the economy and upended daily life is only one of the year's trials. Widespread protests against racial inequality turned up the heat on companies to advance diversity in the workplace. A rash of wildfires and storms that scientists tied to climate change kept the environment firmly in the spotlight.

Along with these crisis-level events, companies continue to face steadily mounting pressure to address the needs of a spectrum of stakeholders—not just shareholders. Today, a vast majority of institutional investors believe a multi-stakeholder model will deliver better long-term financial returns.

> ***It is clear there is an emerging set of criteria that investors are increasingly focused on.***

Over the past four years of Edelman's research into what drives institutional investors' trust in a public company, it is clear there is an emerging set of criteria that investors are increasingly focused on.

While the conventional metrics, such as margin and profitability, capital allocation, and growth strategy remain important, investors are giving weight to a broader array of factors, such as DE&I (diversity, equity and inclusion), ESG, board engagement, and a multi-stakeholder commitment.



How public companies, their leaders, and their boards are addressing these issues is now a top concern of major institutional investors. The [2020 Edelman Trust Barometer Special Report: Institutional Investors] casts light on the main issues that shape financial institutions' investment decisions, along with what drives investor trust in public companies.

Directors must be fully attuned to the views of their investors and each of their key stakeholders and to the risks of falling short of their expectations.

The survey underscores the paramount role that boards play in cementing trust with investors. Indeed, 92% of respondents at U.S. investment firms agreed with the statement: "I must trust a company's board of directors before making or recommending an investment," versus 84% who said they must trust a company's CEO.

The implication is resounding: boards play a central role in building trust with institutional investors.

What it takes to establish trust —the belief a company will do what is right —has evolved in parallel with investors' expanding priorities.

Companies and management teams that measure up to investors' ESG priorities stand to benefit from greater investor and stakeholder support, an increased ability to hire top talent, expanding ranks of clients and customers, and potentially achieve a better market value. The penalties of failure can be severe: reputational erosion, pressure from activist investors and other stakeholders demanding change, and declining enterprise value.

For public company boards the mandate is clear: directors must be fully attuned to the views of their investors and each of their key stakeholders and to the risks of falling short of their expectations.

Today, board accountability is increasing, as shareholders, employee activists, and the rising importance of ESG considerations place boardroom oversight under a more critical lens.

Directors need to take steps to ensure they understand the concerns and perspectives of all of their stakeholders and have the information they need for effective oversight and action in the coming era of stakeholder capitalism.

“In today’s environment, a company’s approach to managing ESG factors is widely viewed by stakeholders as an indicator of effective risk management, agility in the face of change, and the quality of the C-suite and the board.

To achieve success, a company’s ESG strategy must advance its business objectives, opening up new opportunities and driving long-term financial performance. The cost of not taking ESG seriously has become too high.”

Heidi DuBois
U.S. Head of ESG, Edelman

The pages that follow highlight key findings from the latest Investor Trust survey that are pertinent to boards. The research canvassed 600 chief investment officers, portfolio managers, and stock analysts in six countries who collectively manage $20 trillion in assets. The insights summarized in this report are based on input received from U.S.-based investment decision-makers.

Key Elements of Investor Trust for Boards

92%

of investors agree they must trust a company's board of directors before making or recommending an investment

First and foremost–investors' trust in the board influences their decision whether to invest in a company.

Investors say that, when choosing which companies to invest in, trusting the board cited as more critical than trusting the company's management. 92% said they had to believe in a company's board before making or recommending an investment in its stock, compared with 84% who said they had to trust the CEO.

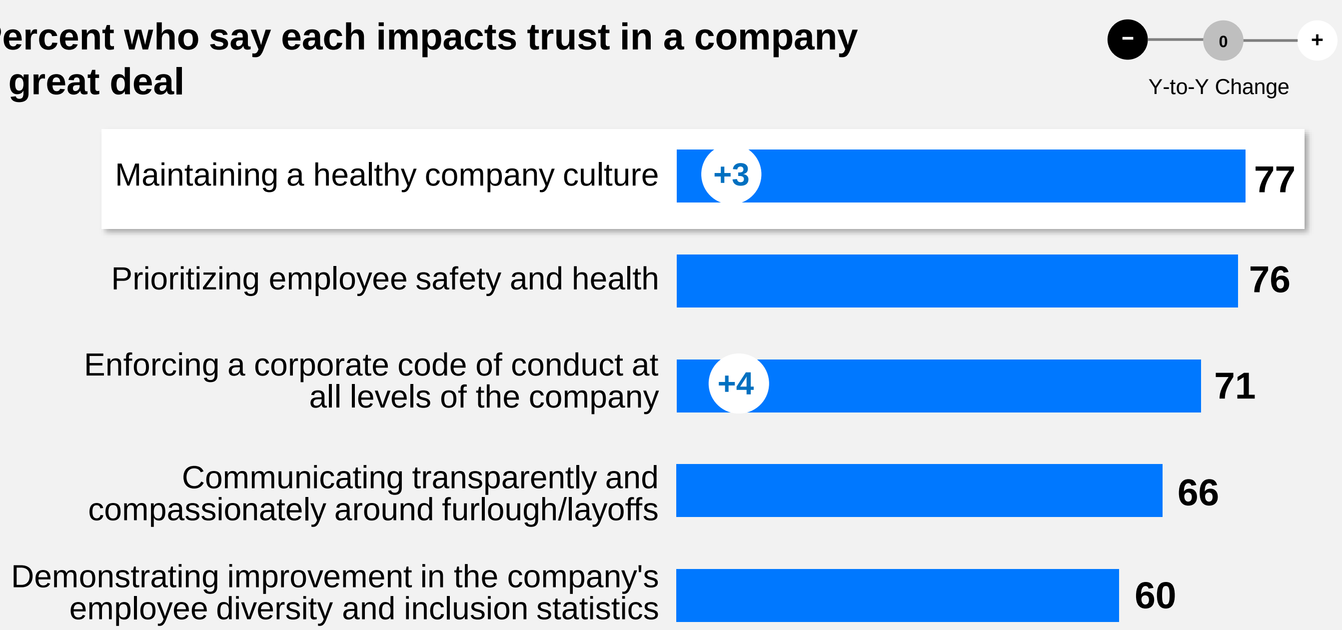
A clear corporate mission is essential to investor trust.

77% of investors said a clearly articulated corporate mission statement, and evidence that a company is delivering on it, greatly reinforces their trust in companies. 72% said that companies with a clearly defined vision for benefiting society also inspire trust. Nine in 10 investors believe businesses must lead on positive societal change.

Maintaining a healthy corporate culture is cited as the top contributor to building investor trust.

When asked which corporate behavioral practices positively impact investors' trust in a company, 77% said "maintaining a healthy company culture," a three-point jump from last year's survey. In the face of rising employee activism and the war for talent, corporate culture is on investors' radar.

Percent who say each impacts trust in a company a great deal



Institutional investors are becoming more activist and are increasing their engagement with boards.

93% of respondents (up from 81% in 2019) said their firms are interested in taking a more activist stance to influence how a company is run and to ensure it addresses issues they identify as critical to driving their trust in the company. Of that group, 55% (versus 49% last year) actively seek to engage with corporate boards. What's more, 51% (versus 41% last year) have nominated director candidates, and 34% (versus 24% last year) have denied votes to current directors who have fallen short of their expectations.

> *"The board must play an active role in building trust with investors and stakeholders."*
>
> **Lex Suvanto**
> Global Managing Director,
> Financial Communications, Edelman

However, those firms that launched campaigns to air misgivings about companies fell to 43% from 52%, demonstrating that investors are moving away from public campaigns and towards board engagement to press their agendas.

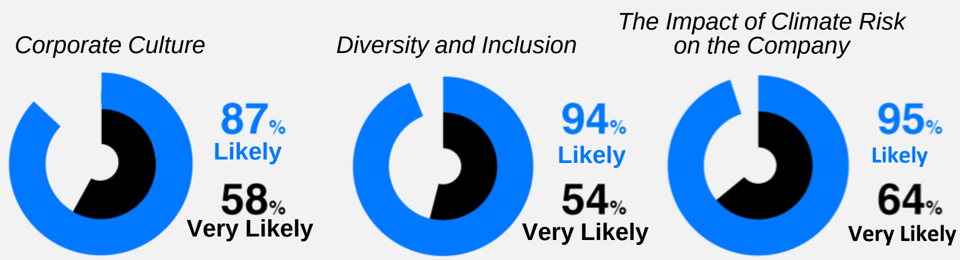
Fully aligning interests between investors and the board drives long-term investor trust.

Among all measures of good governance, executive and board stock ownership ranked No. 1, with 74% of respondents saying it impacts trust greatly. Additional trust builders included equal voting rights (73%), CEO pay being in line with corporate peers (72%), and fully independent board committees (72%).

Boards must be proactive on ESG and expect direct engagement from investors on this topic, particularly as a result of the pandemic and persistent social inequality.

94% of investors indicated they expect to engage with boards within the next six months on these trust-related issues: workforce diversity, employee health and safety, and corporate culture. Additionally, investors plan to accelerate their engagement on climate risk in the next six months.

Likelihood of Investor Engagement
Percent selected



Investors expect to intensify their focus on ESG.

Although most investors (79%) say their firms have temporarily deprioritized ESG criteria while companies cope with the fallout of Covid-19, 96% indicated that their focus on ESG will intensify once the pandemic ebbs.

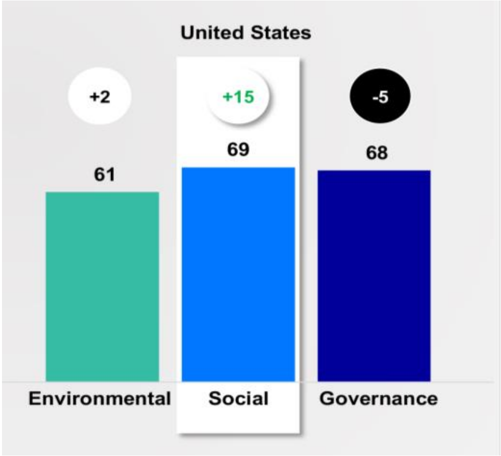
In today's environment, a company's effectiveness in managing ESG factors is widely viewed by investors as essential to trust and an indicator of strong risk management, agility in the face of change, and the quality of the C-suite and the board.

96% expect their firm to increase prioritization of ESG as an investment criteria

93% expect the companies they invest in to increase their prioritization of ESG initiatives

The "S" in ESG matters more than ever.

Importance of each ESG Element
Percent who agree



For the first time, social concerns ranked highest among E, S, and G, with 69% of respondents calling social concerns "very important," up from 54% last year. That compared with 68% for governance (down from 73% the year prior) and 61% for environmental, which rose by two percentage points.

In addition, 97% of investors said they intend to actively engage with company leaders and boards on ESG issues. Nearly all investors expect the board to oversee at least one ESG topic.

99% of investors expect the board of directors to oversee at least one ESG topic

ESG Topic	% Selected	ESG Topic	% Selected
Employee health and safety	52	Corporate culture	38
Social issues in their local community	50	Eco-efficiency of the company's operations	36
Human capital management	46	Diversity and inclusion	35
Data privacy and cybersecurity	45	Supply chain environmental and social risk	30
The impact of climate risk on the company	39	Resource scarcity	30

Diversity in the boardroom is critical.

69% of respondents, up from 55% in 2019, said that diversity within a company's board has a significant positive impact on trust. In the boardroom, investors most value diversity of expertise, strategic philosophy, and business experience, with gender, race, and ethnicity also important factors. 68% identified frequently refreshing boards as important to fostering trust.

Most important types of board diversity to build trust

Percent ranked top 3 among respondents who said diversity within a company's board has a significant impact on trust.

Expertise across different areas of business	56%
Business strategy philosophies	50%
Experience outside the industry or sector	39%
Gender diversity	29%
Experience in government or civil society	28%
Ethnic diversity	26%
Racial diversity	26%
Age diversity	23%
Diversity among nationalities	23%

Diversity & Inclusion metrics are taking center stage and impact a company's share price.

92%

of investors say strong diversity & inclusion metric have a positive impact on a company's share price

71% of investors said their firms actively screen companies' diversity & inclusion (D&I) metrics, with 63% agreeing that proactive disclosure of D&I statistics greatly enhances the trust they put in companies. 92% of investors believe strong D&I metrics have a positive impact on a company's share price. 66% said their firms have started to place current portfolio companies whose D&I metrics fall short on "watch lists" for monitoring and potential action against the board in the near term.

Key Questions Directors Should Ask Management and Themselves

Building trust with institutional investors requires companies set clear ESG goals and performance benchmarks, create mechanisms to monitor and report both progress and roadblocks, and keep investors informed on how they are carrying through. Investors expect boards to ensure that management is held accountable and on track.

Below are questions that boards should ask to monitor progress and meet evolving expectations from institutional investors:

ESG Strategic Alignment

- Has the company articulated a clear corporate purpose statement that is broadly understood across the enterprise, its brands, entities, and operating locations?
- Has management identified the ESG issues with the greatest potential to impact its business strategy? Has management built a clear roadmap to mitigate risks and seize opportunities arising from these issues?
- Has the company reassessed its ESG priorities in light of changes resulting from Covid-19 and/or the pursuit of racial justice?
- Investors indicate they want to hear more from a company's head of ESG/Sustainability. Does the head of ESG regularly report to the board? Does s/he have a public platform and communications plan in place?
- Does the company's ESG reporting comply with the frameworks endorsed by its shareholders? Are the company's ESG priorities clearly articulated in its public reporting (e.g., the annual report, proxy and/or ESG report), on the company website, and in regular communications with investors?
- Has the board considered creating an ESG committee?

Shareholder Engagement

- Does the board have shareholder engagement plans to increase its visibility with investors, bolstering its reputation and driving trust through transparency?
- Is the board prepared to engage with investors on ESG factors, including diversity, during regular shareholder engagement meetings?
- Is the board equipped to discuss how environmental risks are incorporated into the company's risk management strategy? What role does the board have in overseeing environmental issues?

Stakeholder Engagement

- Has the company conducted stakeholder perception audits on key ESG, DE&I, and other emerging trends?
- Is there alignment between the board and management on the social issues that matter most to the company? Would the board be supportive of management taking a public stand on these issues and under what circumstances?
- Has the board considered developing a playbook for stakeholder activism, such as employee activism and social activism?

Shareholder Activism Defense

85% of institutional investors believe the majority of companies are not prepared to handle activist campaigns.

- Has the company prepared or refreshed its activism preparedness playbook?
- Does the board have a clear sense of its true vulnerabilities from the investor perspective?
- When is the next tabletop exercise to ensure the board is equipped for swift action in an unforeseen activist investor scenario?

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ABOUT EDELMAN TRUST BAROMETER SPECIAL REPORT: INSTITUTIONAL INVESTORS

The Edelman Trust Barometer Special Report: Institutional Investors is a supplement to the Edelman Trust Barometer, which is released annually at the World Economic Forum each January. This year's report surveyed 600 institutional investors, including financial analysts, chief investment officers and portfolio managers across six countries (U.S., Canada, U.K., Germany, the Netherlands and Japan).

ABOUT EDELMAN

Edelman is a global communications firm that partners with businesses and organizations to evolve, promote and protect their brands and reputations. Our 6,000 people in more than 60 offices deliver communications strategies that give our clients the confidence to lead and act with certainty, earning the trust of their stakeholders. The Financial Communications & Capital Markets team helps public and private companies promote and protect their reputations as well as navigate complex financial issues and situations with unmatched global scale. We position clients within the financial community during normal-course business and in transformative periods – including M&A, IPOs and spin-offs, crises, and shareholder activism. We also serve as a strategic communications partner to investment banks, brokerage firms, real asset investors, hedge funds, private equity and venture capital funds, exchanges, and other institutional market participants. Our work is designed to inform investors, manage issues, and bridge divergent stakeholder needs with an aim of building trust and enterprise value.

ABOUT NACD

The National Association of Corporate Directors (NACD) empowers more than 21,000 directors to lead with confidence in the boardroom. As the recognized authority on leading boardroom practices, NACD helps boards strengthen investor trust and public confidence by ensuring that today's directors are well prepared for tomorrow's challenges. World-class boards join NACD to elevate performance, gain foresight, and instill confidence. Fostering collaboration among directors, investors, and corporate governance stakeholders, NACD has been setting the standard for responsible board leadership for 40 years. To learn more about NACD, visit NACDonline.org.