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BEST DISCLOSURE: DIRECTOR QUALIFICATIONS & SKILLS

The primary right and responsibility of shareholders is to elect and remove the directors who represent them on corporate boards. But to vote thoughtfully, shareholders need relevant information about director nominees and an understanding of the board's perspective on how each individual serves the company's needs.

Shareholders value disclosures that highlight the relevant skills, experience and attributes that each director nominee brings to the boardroom, without unnecessary or boilerplate information. Most importantly, they seek a clear understanding of how an individual's background and qualifications relate to the company's business and strategy. This helps investors determine whether a nominee is an appropriate candidate for a board seat at a particular company at a particular time. It is also a window into the board's rationale for choosing the candidates it recommends.

This report discusses four kinds of disclosure tools that members of the Council of Institutional Investors (CII) believe to be especially useful for evaluating board candidates. By highlighting disclosures that investors find meaningful, this report seeks to give companies a better understanding of the information their shareholders need to vote carefully for directors.

Background

On Dec. 16, 2009, the U.S. Securities and Exchange Commission (SEC) [adopted](#) amendments to Regulation S-K of the Securities Act of 1933 that require U.S. public companies to enhance their disclosures in proxy statements about the qualifications of director nominees. (The SEC also requires the same disclosures in proxy materials prepared for shareholder-nominated director candidates.) The amendments, the SEC said in the release, would "provide investors with more meaningful disclosure that will help them in their voting decisions by better enabling them to determine whether and why a director candidate is an appropriate choice for a particular company." The amendments were part of a package of new SEC disclosure rules aimed at improving the overall quality of information in proxy statements.

Specifically, companies must provide investors with detailed biographical information on each nominee, including:

- Particular qualifications, attributes, skills or experience that led the board to conclude that the person should serve as a director
- Any directorships of public companies and registered investment companies that each director nominee held at any time in the previous five years
- Legal proceedings against the nominee going back 10 years

The rules also require the board to discuss whether and how it considers diversity in the nomination process.

Many CII members who vote proxies, however, believe that too often companies fail to provide compelling rationales in their proxy statements for their choice of board candidates. Too many provide basic biographical information that sheds little light on the board's thinking about what each individual brings to the boardroom table.

At the suggestion of the [CII Advisory Council](#), CII decided to gather a selection of what members consider exemplary disclosures about board candidates. CII surveyed its members for examples from 2013 U.S. proxy statements of what they considered best-in-class disclosure of director nominee qualifications and skills—and why. This informal survey was not scientific or exhaustive. But it did yield

surprising overlap in the company disclosures and the specific disclosure elements that members found particularly useful. A discussion of the latter, with examples from company proxy statements, follows.

Four Disclosure Tools That Investors Value

1. A summary chart or table of the qualifications, attributes, skills and experience the company believes should be represented on the board as a whole

This feature gives shareholders a big-picture view of the criteria that the company considers in selecting candidates. According to members, the most effective examples also explain clearly how the criteria support the company’s business and strategy. Particularly strong examples include Coca-Cola and General Electric’s 2013 proxy statements. Coca-Cola includes a simple but comprehensive chart that summarizes what the company sees as its most important business characteristics and aligns them with specific qualifications, attributes, skills and experience that it thinks should be represented on the board.

From Coca-Cola’s 2013 proxy statement:

Specific Qualifications, Attributes, Skills and Experience to be Represented on the Board

The Board has identified particular qualifications, attributes, skills and experience that are important to be represented on the Board as a whole, in light of the Company’s current needs and the business priorities as set forth in the Company’s 2020 Vision. The 2020 Vision is an action plan that sets forth a common set of strategies guiding the Coca-Cola system to succeed in the changing environment over this decade. Additional information regarding the 2020 Vision may be found on the Company’s website, www.coca-colacompany.com.

The following table summarizes certain key characteristics of the Company’s business and the associated qualifications, attributes, skills and experience that the Board believes should be represented on the Board.

Business Characteristics	Qualifications, Attributes, Skills and Experience
The Company’s business is multifaceted and involves complex financial transactions in many countries and in many currencies.	<ul style="list-style-type: none"> • High level of financial literacy • Relevant Chief Executive Officer/President experience
The Company’s business is truly global and multicultural, with its products sold in over 200 countries around the world.	<ul style="list-style-type: none"> • Diversity of race, ethnicity, gender, age, cultural background or professional experience • Broad international exposure
The Company’s business is a complicated global enterprise and most of the Company’s products are manufactured and sold by bottling partners around the world.	<ul style="list-style-type: none"> • Extensive knowledge of the Company’s business, industry or manufacturing
Marketing is the core focus of the Company’s business and the Company seeks to develop and deploy the world’s most innovative and effective marketing and technology.	<ul style="list-style-type: none"> • Marketing/marketing-related technology experience
The Company’s business requires compliance with a variety of regulatory requirements across a number of countries and relationships with various governmental entities and non-governmental organizations.	<ul style="list-style-type: none"> • Governmental or geopolitical expertise
The Board’s responsibilities include understanding and overseeing the various risks facing the Company and ensuring that appropriate policies and procedures are in place to effectively manage risk.	<ul style="list-style-type: none"> • Risk oversight/management expertise

General Electric highlights seven specific types of experience it seeks in directors and explains clearly why each is important to the success of the company's business and strategy.

From General Electric's 2013 proxy statement:

In light of GE's businesses and structure, the NCGC seeks directors with the following types of experience:

1. Leadership experience. We believe that directors who have held significant leadership positions, especially CEO positions, over an extended period, provide the company with unique insights. These people generally possess extraordinary leadership qualities, and the ability to identify and develop those qualities in others. They demonstrate a practical understanding of organizations, processes, strategy and risk management, and know how to drive change and growth.

2. Technology experience. As a sciences and technology company and leading innovator, we seek directors with backgrounds in technology because our success depends on developing and investing in new technologies and access to new ideas.

3. Global experience. GE's continued success depends, in part, on its success in continuing to grow its businesses outside the United States. For example, in 2012, approximately 52% of GE's revenues came from outside the United States. This highlights the importance of having directors with a global perspective.

4. Finance experience. We believe that an understanding of finance and financial reporting processes is important for our directors as GE measures its operating and strategic performance by reference to financial goals. In addition, accurate financial reporting and robust auditing are critical to GE's success. We seek to have a number of directors who qualify as audit committee financial experts, and we expect all of our directors to be financially knowledgeable. As part of this qualification, we also seek directors who have relevant risk management experience.

5. Industry experience. We seek to have directors with experience as executives or directors or in other leadership positions in the industries in which we participate. For example, we seek directors with financial services industry and regulatory experience because of our ownership of GE Capital, which is supervised by the Federal Reserve. In addition, as GE has expanded its portfolio of businesses in the energy sector, the Board has sought more expertise in this area, including in oil and gas. Our increased focus on the life sciences and early health businesses within our healthcare segment led the Board to seek directors with healthcare experience. Due to the size of our transportation-related businesses, we also seek directors who have experience with transportation, engineering and manufacturing companies.

6. Marketing experience. GE seeks to grow organically by identifying and developing new markets for its products. Therefore, marketing expertise, especially on an international basis, is important to us.

7. Government experience. We seek directors with experience with government because many of GE's businesses are heavily regulated and are directly affected by governmental actions and socioeconomic trends.

2. A skills matrix that shows how each nominee fits stated categories of desired qualifications, attributes, skills and experience

A growing number of corporations, especially larger companies, include a skills matrix in their discussion of director qualifications. According to a [study](#) by Ernst & Young, 13 percent of Fortune 100 companies incorporated this feature in their 2013 proxy statements. These presentations let investors see at a glance what each nominee brings to the table and any gaps in critical skills, experience or other characteristics.

There is no single template for an effective skills matrix. Microsoft, Prudential Financial and Coca-Cola use different skills matrix formats in their proxy statements. Microsoft’s skills matrix, while simpler and less detailed than the following two examples, gives shareholders a summary view of the strengths and potential gaps on the board as a whole.

From Microsoft’s 2013 proxy statement:

Experience, expertise or attribute	Ballmer	Gates	Dublon	Klawe	Luczo	Marquardt	Noski	Panke	Thompson
Technology, devices and services	*	*		*	*	*	*		*
Leadership	*	*		*	*			*	*
Global business	*	*	*		*		*	*	*
Financial	*	*	*		*	*	*	*	*
Mergers and acquisitions	*	*	*		*	*	*		*
Public company board service and governance	*	*	*	*	*	*	*	*	*
Sales and marketing	*				*			*	*
Research and academic				*					
Ethnic, gender, national or other diversity			*	*				*	*

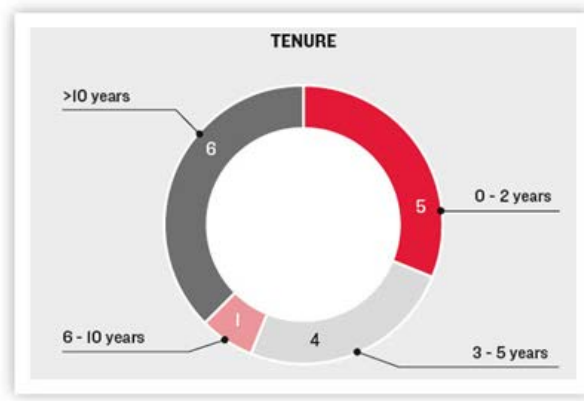
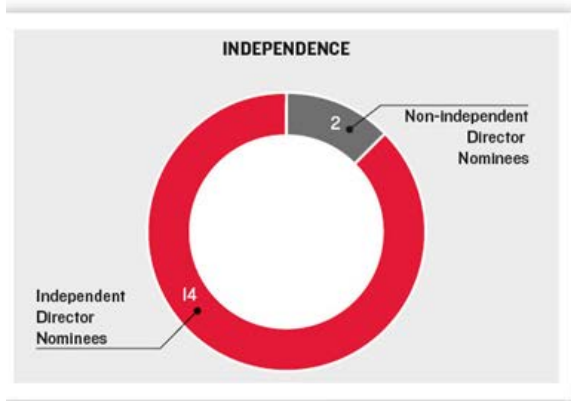
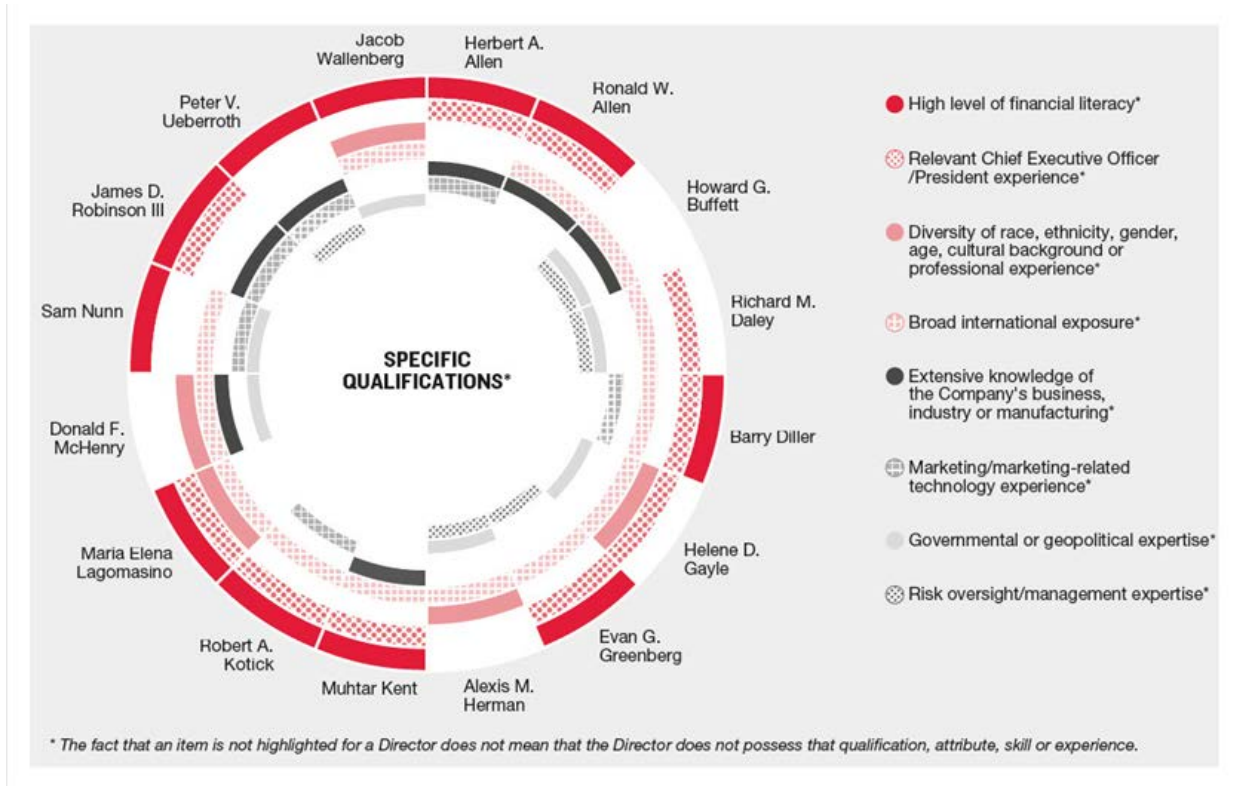
Prudential Financial’s matrix, provided at the end of its director nominee profile section, summarizes the 18 categories of qualifications and experience that the company deems most critical on its board. It also explains why each of these categories is relevant to Prudential’s business and uses a tick-in-the-box format similar to Microsoft’s to show which of the desired attributes each director nominee possesses. (See chart on next page.)

From Prudential Financial's 2013 proxy statement:

SUMMARY OF DIRECTOR QUALIFICATIONS AND EXPERIENCE		Baltimore, Thomas J., Jr.	Bethune, Gordon M.	Calperton, Gaston	Casellas, Gilbert	Cullen, James	Gray, William H., III	Grier, Mark B.	Horne, Constance J.	Hund-Mejean, Martina	Kragok, Karl J.	Poon, Christine A.	Strangfeld, John R.	Umruh, James A.
ACADEMIA/EDUCATION	experience is important because it brings perspective regarding organizational management and academic research relevant to our business and strategy.			•			•					•		
BUSINESS ETHICS	experience is important given the critical role that ethics plays in the success of our businesses.				•		•							
BUSINESS HEAD/ADMINISTRATION	experience is important since directors with administration experience typically possess strong leadership qualities and the ability to identify and develop those qualities in others.	•	•	•		•	•	•	•	•	•	•	•	•
BUSINESS OPERATIONS	experience gives directors a practical understanding of developing, implementing and assessing our operating plan and business strategy.	•	•	•	•	•	•	•	•	•	•	•	•	•
CORPORATE GOVERNANCE	experience supports our goals of strong Board and management accountability, transparency and protection of shareholder interests.	•	•	•	•	•	•	•	•	•	•	•	•	•
ENVIRONMENTAL/SUSTAINABILITY/CORPORATE RESPONSIBILITY	experience strengthens the Board's oversight and assures that strategic business imperatives and long-term value creation for shareholders are achieved within a responsible, sustainable business model.			•	•		•	•	•		•		•	
FINANCE/CAPITAL ALLOCATION	experience is important in evaluating our financial statements and capital structure.							•		•	•		•	•
FINANCIAL EXPERTISE/LITERACY	is important because it assists our directors in understanding and overseeing our financial reporting and internal controls.	•	•	•	•	•	•	•	•	•	•	•	•	•
FINANCIAL SERVICES INDUSTRY	experience is important in understanding and reviewing our business and strategy.						•	•		•			•	
GOVERNMENT/PUBLIC POLICY	experience is relevant to the Company as it operates in a heavily regulated industry that is directly affected by governmental actions.			•	•		•	•	•					
INSURANCE INDUSTRY	experience is important in understanding and reviewing our business and strategy.			•				•					•	
INTERNATIONAL	experience is important in understanding and reviewing our business and strategy.		•	•		•	•	•	•	•	•	•	•	•
INVESTMENTS	experience is important in evaluating our financial statements and investment strategy.	•			•					•			•	•
MARKETING/SALES	experience is relevant to the Company as it seeks to identify and develop new markets for its financial products and services.		•	•		•						•		•
RISK MANAGEMENT	experience is critical to the Board's role in overseeing the risks facing the Company.				•			•					•	•
REAL ESTATE	experience is important in understanding and reviewing our business and strategy.	•									•			
TALENT MANAGEMENT	experience is valuable in helping us attract, motivate and retain top candidates for positions at the Company.		•			•		•	•	•			•	
TECHNOLOGY/SYSTEMS	experience is relevant to the Company as it looks for ways to enhance the customer experience and internal operations.							•			•		•	•

Coca-Cola uses a layered skills matrix in the form of an easy-to-read circle chart that summarizes which nominees fulfill which of the principle qualifications the board values. Smaller circle charts below the skills matrix break down board membership by independence and tenure. The charts let shareholders glean the most important information from the profile section in one place at a glance.

From Coca-Cola's 2013 proxy statement:



3. A chart or table of key biographical information for all director nominees

Investors value a high-level overview of relevant biographical data, such as age, tenure, independence, principal occupation, committee memberships and other board service. These charts or tables let time-pressed shareholders see key background facts immediately. General Electric and Pfizer include particularly effective examples of this type of table.

From General Electric's 2013 proxy statement:

BOARD NOMINEES

Name	Age	Director Since	Principal Occupation	Independent	Committee Memberships					Other Public Company Boards
					AC	MDCC	NGGC	RC	PRC*	
W. Geoffrey Beattie	52	2009	Deputy Chairman, Thomson Reuters	X	F				C	<ul style="list-style-type: none"> Maple Leaf Foods Royal Bank of Canada Thomson Reuters
John J. Brennan	58	2012	Chairman Emeritus and Senior Advisor, The Vanguard Group	X					X	<ul style="list-style-type: none"> Hanover Insurance LPL Financial Holdings
James I. Cash, Jr.	65	1997	Emeritus James E. Robison Professor of Business Administration, Harvard Business School	X	X	X			X	<ul style="list-style-type: none"> Chubb Wal-Mart
Francisco D'Souza	44	2013	CEO, Cognizant Technology Solutions Corporation	X						<ul style="list-style-type: none"> Cognizant
Marijn E. Dekkers	55	2012	Chairman of the Board of Management, Bayer AG	X						<ul style="list-style-type: none"> Bayer
Ann M. Fudge	61	1999	Former Chairman & CEO, Young & Rubicam Group	X					X	<ul style="list-style-type: none"> Infosys Novartis Unilever

From Pfizer's 2013 proxy statement:

OUR DIRECTOR NOMINEES

You are being asked to vote on the election of these 13 Directors. All Directors are elected annually by a majority of votes cast. Detailed information about each Director's background, skill sets and areas of expertise can be found beginning on page 24.

Name	Age	Director Since	Position	Principal Skills	Independent	Committee Memberships*					Other Current Public Boards
						AC	CC	CGC	RCC	STC	
Dennis A. Ausiello, M.D.	67	2006	Professor, Harvard Medical School and Chief of Medicine, Massachusetts General Hospital	Academic, Medicine	Yes	M		M	M	C	1
M. Anthony Burns	70	1988	Chairman Emeritus, Ryder System	Business Leadership, Finance	Yes	M		M		M	1
W. Don Cornwell	65	1997	Former Chairman and CEO, Granite Broadcasting	Business Leadership, Finance	Yes	C	M		M	M	2
Frances D. Fergusson, Ph.D.	68	2009	President Emeritus, Vassar College	Academic, Healthcare	Yes		M		C	M	1
William H. Gray, III	71	2000	Chairman of Gray Global Strategies	Government, Leadership Development	Yes			C		M	2

4. A robust profile of each nominee

Investors also value the ability to zoom in for a detailed picture. In particular, they value profiles that include biographical data, a photograph, a summary of the nominee’s professional experience and an explanation of the relevance of the candidate’s skills and experience to the company. Each of the examples below presents useful, detailed information about a director and an understanding of the board’s view of how the director’s experience and skills benefit the company’s business and strategy.

From Walt Disney’s 2013 proxy statement:



Susan E. Arnold, 58, is retired and was President — Global Business Units of Procter & Gamble from 2007 to 2009. Prior to that, she was Vice Chair of P&G Beauty and Health from 2006, Vice Chair of P&G Beauty from 2004 and President Global Personal Beauty Care and Global Feminine Care from 2002. She has been a director of McDonalds Corporation since 2008. Ms. Arnold has been a Director of the Company since 2007.

Ms. Arnold contributes to the mix of experience and qualifications the Board seeks to maintain primarily through her experience as an executive of Procter & Gamble and her other public company board experience. At Procter & Gamble, Ms. Arnold was a senior executive responsible for major consumer brands in a large, complex retailing and global brand management company. As a result of this experience, Ms. Arnold brings to our Board in-depth knowledge of brand management and marketing, environmental sustainability, product development, international consumer markets, finance and executive management, including executive compensation and management leadership.

From Prudential Financial’s 2013 proxy statement:

 <p>THOMAS J. BALTIMORE, JR. Age: 49 Director Since: October 2008</p>	<p>Prudential Committees:</p> <ul style="list-style-type: none"> • Executive • Finance • Investment (Chair) 	<p>Public Directorships:</p> <ul style="list-style-type: none"> • RLJ Lodging Trust • Duke Realty Corporation
	<p>Former Directorships Held During the Past Five Years:</p> <ul style="list-style-type: none"> • Integra Life Sciences Corporation (August 2012) 	

Mr. Baltimore has been the President and Chief Executive Officer of RLJ Lodging Trust (a NYSE-listed real estate investment company) since May 2011. Previously, he served as Co-Founder and President of RLJ Development, LLC (RLJ Lodging’s predecessor company) from 2000 to May 2011. He served as VP, Gaming Acquisitions, of Hilton Hotels Corporation from 1997 to 1998 and later as VP, Development and Finance, from 1999 to 2000. He also served in various management positions with Host Marriott Services, including VP, Business Development, from 1994 to 1996.

Skills and Qualifications

Business Head/Administrator: Over a decade of service as President of RLJ Development.

Business Operations: As President and CEO of RLJ Lodging Trust, Mr. Baltimore is responsible for the day-to-day oversight of its \$3 billion portfolio, which includes 148 hotels in major markets in North America. He spent over a decade as Co-Founder and President of RLJ Development, where he was responsible for developing, implementing and assessing the company’s operating plan.

Corporate Governance: Experience serving as a director of several public companies in addition to Prudential.

Investments: Through RLJ Lodging Trust, Mr. Baltimore has been responsible for overseeing the management of nearly \$2 billion in equity; formerly served as VP, Development and Finance of Hilton Hotels.

Real Estate: President and CEO of RLJ Lodging Trust and a director of Duke Realty, one of the largest commercial real estate companies in the U.S., and former Co-Founder and President of RLJ Development.

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Prudential Financial

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