

National Association of Corporate Directors Texas TriCities Chapter
Houston | The Changing Role of the Director Outside the Boardroom

Houston, TX | September 3, 2015

Program Moderator

- **Barbara Duganier:** Director, Buckeye Partners (NYSE: BPL), MRC Global (NYSE: MRC), HCC Insurance Holdings (NYSE: HCC), Genesys Works

Program Speaker

- **William “Gentry” Lee, Jr., CFA:** President, Fayez Sarofim & Co., Director, The Sarofim Group, UT Health Development, St. John’s School, The Carruth Foundation
- **Sarah Teslik:** Senior Vice President – Communications, Public Affairs and Governance, Apache Corporation

Program Summary:

Shareholder inquiries or activism have become a reality for all companies, not just those with sub-par performance, corporate waste or improper corporate governance. Shareholders invest in companies they believe in, and that includes having confidence in the board of directors. In light of this increased spotlight, Barbara Duganier, Gentry Lee, and Sarah Teslik sat down to discuss the evolving dynamic between directors and the investment community.

Duganier, the program moderator, opened with the observation that these days, directors are called upon to ‘wear more hats’ than ever before. One result is that an increasing number of directors are communicating directly with shareholders. She asked the panelists about a perceived need to bring “activist thinking” into the boardroom, and whether such thinking was a short term-term trend, or rather a new normal. She then shared the results of the audience survey that was taken in advance of the program and available in the program presentation on the Chapter website.

Teslik noted that boards are often more reactive than proactive when it comes to shareholder communications. But on some issues – like executive compensation, for example – shareholders expect to hear from directors, *not* management. For this reason, Apache sends its Compensation Committee Chair on a ‘road show’ to meet with key shareholders. But it isn’t just the Chair, she added; over half of the company’s directors have had individual meetings with shareholders, often discussing other matters in addition to say-on-pay. Such behavior, she noted, is expected among many European investors. Even so, Apache’s take is highly atypical, said Lee. Rather, most companies wait until a crisis hits to conduct that kind of outreach.

Duganier followed up with a question, asking if Teslik had heard any concerns regarding Apache’s approach. Teslik replied that Regulation FD is not as difficult to navigate as many people initially think. Directors are smart; they can handle this stuff. The fact that Reg FD is implicated reflects a key misperception about the purpose of these meetings, she said – they’re used to *gather* information, not distribute it. Directors are there to ask questions, like: “Why did you buy [our stock]? Why didn’t you buy more?” Teslik said that initially Apache had no formal policy for such interactions, but as these conversations between directors and investors have become more prevalent, she said, “the company developed policies for best practices.”

Duganier then turned to Lee and asked what kind of things he wanted to discuss with directors. Lee noted that while he likes to have an ongoing conversation with management, the primary thing he wants to hear about from the board is capital allocation: “What’s the dividend policy? How committed are you to the policy? Are you holding management responsible to your capital allocation policies?” Capital allocation is the focus, Lee said, because his firm looks to invest long-term. That and compensation, he added.

Turning back to Regulation FD, Duganier asked about what kinds of topics were off limits: How does one avoid crossing those lines? And what kind of preparation should a director have ahead of time? Teslik replied simply: “practice and training.” She observed that investors will always try to gather as much information as possible out of the directors. As a result, she said, at Apache they train directors to always ask a follow up question before responding to an investor question. At the very least, it buys a little time. She also noted that it usually helps if there are a couple of representatives from the company in the room. And if an investor asks a question that is better addressed to management, she advised, simply respond that you will get back to them. Or better yet, ask: “What would you [the shareholder] like to hear so that I can get your vote?”

When asked about proxy advisors, Lee noted that most of the firms use a formula: “Is a director on ‘too many’ boards? How many meetings has the director missed? How does management pay compare?” Instead, he said, his firm tries to look at proxy votes on a case-by-case basis. “We only try to solve a problem if there really is a problem,” he said.

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Summary By: Preston Heckathorn, NACD Texas TriCities Chapter Intern

Audience Q&A:

Question: “If you had a director call you without management, what do you do? Do you ever call directors one-on-one?”

Answer: Lee noted that many big firms are headquartered in Houston. Most of the time, meeting with a director one-on-one is a chance encounter. He observed that a director reaching out directly to his firm was fairly unlikely – and that if it did happen, it was usually in strange circumstances. At the same time, though, investors are always looking for insight – just be cautious, he said. Teslik joked that she likes to remind everyone involved how uncomfortable jail time could be.

Question: “What words describe *great* interaction between directors and shareholders?”

Answer: Lee: “Consistent; honest; clear; forthright.” He added, “Whatever you’re going to do, be consistent.”

Teslik suggested not taking an ‘army of people’ or a PowerPoint deck (absent a proxy fight). She recommended asking to hear all of the investor’s concerns before responding to any of them. Finally, remember to send thank you notes and follow ups – it may get people to buy more of your stock. “Things that work in your personal adult world [also] work in the corporate world,” she concluded.

Duganier: “Prepared.” Then she added, “There is no one-size fits all.”

Additional program resources and speaker takeaways can be found at:

<https://texastricities.nacdonline.org/Resources/meeting.cfm>