

# CtW Investment Group

May 11, 2016

## **Please WITHHOLD support for the reelection of Director Lance Primis and Director Ronald Havner, Jr. at the Annual Meeting on May 19, 2016.**

Dear AvalonBay Communities Shareholders:

We are writing to urge you to join us in withholding support for the reelection of directors Lance Primis and Ronald Havner, Jr. at AvalonBay's upcoming Annual Meeting of Stockholders on May 19, 2016. As Chair of the Nominating and Corporate Governance Committee, Mr. Primis has facilitated this Board's persistent stagnation via a deeply troubling lack of Board diversity. It is similarly troubling that, in spite of substantial shareholder opposition, this Board has allowed Mr. Havner to remain serving as an overboarded director. We believe that AvalonBay shareholders will be much better served by a refreshed and accountable Board, and ask you to withhold support for directors Primis and Havner.

The CtW Investment Group works with union-sponsored pension funds with over \$250 billion in AUM to enhance long-term shareholder value through active ownership. These funds are substantial AvalonBay shareholders.

### **In spite of shareholder opposition, Ronald Havner remains overboarded**

Shareholders voiced substantial opposition to the directorship of Mr. Havner at the 2015 Annual Meeting with 41.4% of votes cast withheld from his reelection. Yet the Board has failed to be responsive to shareholders' concerns, and has allowed Mr. Havner to remain overboarded.

Mr. Havner currently serves as CEO and Chairman of his own company, Public Storage (NYSE:PSA), which like AvalonBay is a component of the S&P 500, and he also serves on the board of two other public companies. According to an annual survey published by the National Association of Corporate Directors, the average annual director time commitment is 248.2 hours for each board served.<sup>1</sup> Thus in the case of Mr. Havner, his service as an outside director at AvalonBay and the other two companies should require an estimated annual commitment of 745 hours—the equivalent of 18 full-time working weeks—in addition to his duties as the full-time CEO and Chairman of his own company. Given these conditions and rational time constraints, it is difficult to imagine the four boards on which Mr. Havner serves are receiving the full benefit of rigorous and effective representation.

Other companies have given the perils of overboarding due consideration. This is demonstrated by the fact that 77% of S&P 500 boards now place limitations on outside board service. Fewer than half of S&P 500 CEOs serve on a public company board other than their own, and a mere 1% of S&P 500 CEOs have more than two outside board assignments.<sup>2</sup> The Council of Institutional Investors has adopted the following policy on outside board service:

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<sup>1</sup> National Association of Corporate Directors (2015, October 12). *2015-2016 NACD Public Company Governance Survey*. Retrieved from NACD Library: <https://www.nacdonline.org/Store/ProductDetail.cfm?ItemNumber=19733>

See also Posner, C. (2016, February 1). *NACD governance survey reports on top board priorities, time commitment and other matters*. Retrieved from PubCo @ Cooley: <https://cooleypubco.com/2016/02/01/nacd-governance-survey-reports-on-top-board-priorities-time-commitment-and-other-matters>

<sup>2</sup> Spencer Stuart. (2015, November 2). *Spencer Stuart U.S. Board Index 2015*. Retrieved from Spencer Stuart Research & Insight: <https://www.spencerstuart.com/research-and-insight/spencer-stuart-us-board-index-2015>

*Absent unusual, specified circumstances, directors with full-time jobs should not serve on more than two other boards. Currently serving CEOs should not serve as a director of more than one other company, and then only if the CEO's own company is in the top half of its peer group.*<sup>3</sup>

For the second year in a row, ISS has recommended a withhold vote from Mr. Havner on the grounds of his serving on four public boards, including his own company, and we are in thorough agreement with this recommendation.

**Lance Primis has perpetuated Board insularity.**

Mr. Primis has served as Chair of the Nominating and Corporate Governance Committee for eight consecutive years, during which time the Board has continued to exhibit a worrisome lack of racial and gender diversity. More specifically, Mr. Primis has steered the Nominating and Corporate Governance Committee in a direction that has resulted in a Board that is 100% white and 89% male.

We strongly believe that demographic diversity in the boardroom leads to healthier debates, better decisions and greater adaptability to change. Empirical studies have found a positive relationship between company performance and greater board diversity. For instance, a study conducted jointly by researchers at Rutgers and Iowa State University found that the percentage of women and minorities on boards of directors is positively correlated with financial indicators of firm performance.<sup>4</sup> Several studies have suggested that having at least three women on corporate boards enhances governance outcomes.<sup>5</sup> By neglecting to adopt higher standards of corporate governance, including Board diversity, the Nominating and Corporate Governance Committee has neglected an opportunity to better position itself for long-term shareholder value. As the longstanding Nominating and Corporate Governance Committee Chair, Lance Primis bears responsibility for this neglect.

AvalonBay shareholders are best served by a committed Board that adheres to higher standards of corporate governance. I urge you to join us in opposing the reelection of Director Primis and Director Havner on May 19, 2016. If you would like to discuss our concerns directly with us, please contact my colleague Derrick Wortes at (202) 721-6052 or at [derrick.wortes@changetowin.org](mailto:derrick.wortes@changetowin.org).

Sincerely,



Dieter Waizenegger  
Executive Director, CtW Investment Group

**This is not a solicitation of authority to vote your proxy.  
Please DO NOT send us your proxy card as it will not be accepted.**

<sup>3</sup> Council of Institutional Investors. (2015, April 1). *Corporate Governance Policies*. Retrieved from CII Policies on Corporate Governance: [http://www.cii.org/files/committees/policies/2015/04\\_01\\_15\\_corp\\_gov\\_policies.pdf](http://www.cii.org/files/committees/policies/2015/04_01_15_corp_gov_policies.pdf)

<sup>4</sup> Erhardt, N. L., Werbel, J. D., & Shrader, C. B. (2003, March 19). *Board of Director Diversity and Firm Financial Performance*. Retrieved from Digital Repository @ Iowa State University: [http://lib.dr.iastate.edu/cgi/viewcontent.cgi?article=1005&context=management\\_pubs](http://lib.dr.iastate.edu/cgi/viewcontent.cgi?article=1005&context=management_pubs)  
See also Credit Suisse Research. (2012, August). *Gender Diversity and Corporate Performance*. Retrieved from <https://publications.credit-suisse.com/tasks/render/file/index.cfm?fileid=88EC32A9-83E8-EB92-9D5A40FF69E66808>

<sup>5</sup> Kramer, V. W., Konrad, A. M., & Erkut, S. (2006, October). *Critical Mass on Corporate Boards: Why Three or More Women Enhance Governance*. Retrieved from Wellesley Centers for Women Publications: [https://secure.touchnet.net/C21764\\_ustores/web/product\\_detail.jsp?PRODUCTID=105&SINGLESTORE=true](https://secure.touchnet.net/C21764_ustores/web/product_detail.jsp?PRODUCTID=105&SINGLESTORE=true)

Schwartz-Ziv, M. (2013, May 2). *Does the Gender of Directors Matter?* Retrieved from Social Science Research Network: [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2257867](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2257867)

Schwartz-Ziv, M. (2015, July 14). *Gender and Board Activeness: The Role of a Critical Mass*. Retrieved from Social Science Research Network: [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1868033](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1868033)

See also Kramer, V. W., Konrad, A. M., & Erkut, S. (2006, October). *Executive Summary of Critical Mass on Corporate Boards: Why Three or More Women Enhance Governance*. Retrieved from Wellesley Centers for Women: <http://www.wcwonline.org/pdf/CriticalMassExecSummary.pdf>