



**CYS INVESTMENTS**

**2017 CORPORATE RESPONSIBILITY REPORT**

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## METRICS

## 3 WHO WE ARE

## THE COMPANY

**FOUNDED 2006**  
**IPO: 2009**  
**INTERNALIZED: 2011**

CYS Investments Inc. is a specialty finance company created to achieve consistent risk-adjusted investment income. We were founded in January 2006, and commenced operations in February 2006. We completed our initial public offering in June 2009. Our common stock, Series A Preferred Stock, and Series B Preferred Stock trade on the New York Stock Exchange under the symbols CYS, CYS PrA and CYS PrB.

### SHAREHOLDER ALIGNED

- Internally Managed
- Performance-Based Compensation
- Strong Compensation Governance
- Stock ownership requirements and retention policies
- All Directors Annually elected
- Directors and executive officers prohibited from short-selling, pledging or hedging

### TRANSPARENT

- Proactive investor engagement
- Comprehensive website
- Enhanced Quarterly Supplemental Materials
- Annual Board review of NEO compensation, borrowing capabilities, regulatory and GSE monitoring, and IT infrastructure

## PEOPLE AND PRACTICES

### PORTFOLIO \$13.1 BILLION

**ASSETS**  
**15-YEAR FIXED RATE**  
**20-YEAR FIXED RATE**  
**30-YEAR FIXED RATE**  
**HYBRID ARMS**  
**U.S. TREASURIES**

We invest in residential mortgage-backed securities issued and guaranteed by federally chartered corporations such as Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, or an agency of the U.S. government such as Government National Mortgage Association, and debt securities issued by the United States Department of Treasury. At December 31, 2017, the size of our portfolio was \$13.1 billion.

### DIVIDENDS

| <u>2016</u>       | <u>2017</u>       |
|-------------------|-------------------|
| <b>Q1: \$0.26</b> | <b>Q1: \$0.25</b> |
| <b>Q2: \$0.25</b> | <b>Q2: \$0.25</b> |
| <b>Q3: \$0.25</b> | <b>Q3: \$0.25</b> |
| <b>Q4: \$0.25</b> | <b>Q4: \$0.25</b> |

Our income is generated primarily from the net spread between interest income we earn on our investment portfolio and the cost of our borrowings and hedging activities. Based on the closing price per common share on December 31, 2017, our annualized dividend yield was 12.6%.

**REPO COUNTERPARTIES**  
**37 ACTIVE**  
**53 TOTAL**

We manage borrowing costs by utilizing our extensive sources of financing and our ability to effectively identify and capitalize on opportunities in our markets.

### IT INFRASTRUCTURE

- ‘Best in Class’ providers and practices
- Established policies and procedures to aid in risk mitigation
- Ongoing cybersecurity intelligence
- Providers SSAE 16 and/or Sox compliant
- Business Continuity Plan

Note: Portfolio, Dividend, and Repo Counterparty data as of December 31, 2017.

## 4 WHO WE ARE

### THE COMPANY

#### 16 EMPLOYEES

We strive to provide our employees an engaging, energetic, supportive, collegial atmosphere in which to work, contribute to the Company, and grow professionally.

#### SENIOR MANAGEMENT

- Average # of Years with CYS: 10.3
- Average # of Years in Sector: 29.1

## PEOPLE AND PRACTICES

#### COMPENSATION PERFORMANCE BASED FORMULAIC LIMITED

- 75% of our CEO's target incentive compensation is based on pre-established objective performance hurdles. 25% is determined at the discretion of the Compensation Committee based on the achievement of qualitative individual goals
- 60% of our other NEOs' target incentive compensation is based on pre-established objective performance hurdles. 40% is determined at the discretion of the Compensation Committee based on the achievement of qualitative individual goals.
- Executives' incentive compensation is payable half in cash and half in restricted stock.
- No quantitative based incentive compensation for returns generated unless exceeding certain levels and provide for maximum payouts under our annual incentive program
- No perquisites
- We do not provide excise tax gross-ups upon change in control and do not provide for a single trigger payouts.
- We do not allow repricing of underwater stock options

## 5 OUR PRIORITIES

### BUSINESS

We seek to achieve consistent risk-adjusted investment income by investing on a leveraged basis primarily in agency residential mortgage-backed securities (“Agency RMBS”) for which the principal and interest payments are guaranteed by a government-sponsored enterprise, such as the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, or by a U.S. government agency, such as the Government National Mortgage Association (collectively, “GSEs”). We may also invest in debt securities issued by the United States Department of Treasury (“U.S. Treasuries”).

### ETHICAL CONDUCT

Our Board of Directors has established a code of business conduct and ethics that expressly prohibits the continuation of any conflict of interest by an officer, director or employee except under guidelines approved by the Board of Directors, and requires any employee to report any actual conflict of interest to a supervisor, manager or other appropriate personnel. The code of business conduct and ethics is designed to deter wrongdoing and promote:

- Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- Compliance with applicable governmental laws, rules and regulations;
- Prompt internal reporting of violations of the code to appropriate persons identified in the code
- Accountability for adherence to the code.

We encourage employees to confidentially report concerns about suspected unethical behavior by:

- Speaking with their manager or member of the executive management team.
- Call our Ethics and Compliance Employee Hotline, available 24/7

### TRANSPARENCY

- All assets and hedges are marked-to-market with changes in fair value reported through earnings.
- Quarterly distribution of a comprehensive Supplemental Earnings presentation.
- Annual Analyst and Investor Day since 2012
- The Company participated in an investor outreach program in 2017 with the Company’s 40 largest institutional investors, representing approximately 53.5% of the Company’s outstanding voting securities as of the time of the initial outreach effort, in an effort to discuss and obtain feedback on executive compensation and corporate governance matters.
- All Board committee charters available at [www.cysinv.com](http://www.cysinv.com)
- We have implemented procedures for stockholders and other interested parties who wish to communicate directly with our independent directors. We believe that communicating directly with our independent directors, rather than the full Board of Directors, provides a confidential, candid, and effective method of relaying an interested party’s concerns or comments.

## 6 GOVERNANCE

### POLICIES AND STRUCTURE

#### BOARD CHARACTERISTICS

- Average Tenure: 8.2 years
- Average Age: 62.1
- Composition: 50% male, 50% female
- Board Meetings in 2017: 10
- Elections: Annual

#### DIRECTOR INDEPENDENCE

- 5/6 director nominees are independent.
- All Board committees consist solely of independent directors.
- Our Corporate Governance Guidelines require that a majority of our directors be independent. Our Board of Directors has adopted the categorical standards prescribed by the NYSE to assist the Board of Directors in evaluating the independence of each of the nominees.

#### STOCK OWNERSHIP

|                   | <u>Shares</u> |
|-------------------|---------------|
| Mr. Grant         | 823,326       |
| Mr. Stern         | 145,996       |
| Mr. Jonas         | 100,024       |
| Mr. Redlingshafer | 76,507        |
| Ms. Hammond       | 53,305        |
| Ms. Beder         | 52,097        |
| Ms. Reiss         | 33,351        |
| Dr. Tyson         | <u>27,659</u> |
|                   | 1,312,265     |

#### POLICY EXAMPLES

- All directors serve on three or fewer public company boards. One is a public company CEO, and serves solely on our Board.
- Robust stock ownership and retention.
- Directors prohibited from short-selling, pledging, or hedging transactions .
- Annual Self-Evaluations

### RISK MANAGEMENT

### DEVELOPING SKILLS AND KNOWLEDGE

#### BOARD COMPETENCIES

- Leadership/Public Company 6/6 directors
- Mortgage Backed Securities 5/6 directors
- Counterparty Risk Management 5/6 directors
- Regulatory Compliance 5/6 directors
- Finance Markets/Hedging 6/6 directors
- Capital Markets 6/6 directors
- Finance/Audit 6/6 directors
- Compensation/Governance 5/6 directors

#### BOARD DIVERSITY

- 50% of our director nominees are women.
- Although the Nominating and Corporate Governance Committee (NCGC) does not have a separate policy specifically governing diversity, the NCGC will consider, in identifying first-time candidates or nominees for director, or in evaluating individuals recommended by stockholders, the current composition of the Board in light of the interplay of the candidate's or nominee's experience, education, skills, background, gender, race, ethnicity and other qualities and attributes with those of the other Board members.

**AUDIT COMMITTEE**

Reviews and discusses with management and our independent public accountants our annual and quarterly financial statements;

Selects and evaluates our outside auditors, including their qualifications and independence and approves all audit engagement fees and terms and all non-audit engagements of the outside auditors;

Reviews with the independent public accountants the plans and results of the audit engagement;

Reviews the performance of the independent public accountants, is directly involved in the selection of the lead engagement partner, and periodically considers whether there should be a rotation of the external audit firm;

Reviews and discusses with management the adequacy of our internal controls; and

Reviews any transactions that include potential conflicts of interest and related party transactions. Each member of the Audit Committee is independent, as independence for audit committee members is defined by NYSE and SEC rules.

**COMPENSATION COMMITTEE**

Discharges the Board’s responsibilities relating to the Company’s overall compensation strategy and the compensation of our executive officers. Oversees the Company’s incentive compensation practices to help ensure that they do not encourage excessive risk-taking and reviews and approves benefit and compensation plans and arrangements applicable to executive officers of the Company;

Evaluates the CEO’s performance and approves and recommends the CEO’s compensation to our Board for approval and approves compensation for our other executive officers and any other officers or employees as the Compensation Committee determines appropriate, and reviews director compensation and recommends any changes for approval by the Board;

Administers the issuance of any equity awards under our 2013 Equity Incentive Plan (the “2013 Equity Plan”); Oversees succession planning and actions taken by the Company regarding stockholder approval of executive compensation matters, including advisory votes on executive compensation; and

Has the sole authority to retain or obtain the advice of and terminate any compensation consultant, independent legal counsel or other advisor to the Compensation Committee, and evaluates the independence of its advisors in accordance with NYSE rules.

**NOMINATING AND CORPORATE  
GOVERNANCE COMMITTEE (NCGC)**

Assists the Board by identifying individuals qualified to become Board members and recommends to the Board nominees for director and committee membership;

Annually reviews and assesses the adequacy of our Corporate Governance Guidelines and certain other corporate governance documents;

Oversees an annual review of the Board’s performance;

Reviews periodically with the Board of Directors the succession plans with respect to the CEO;

Recommends to the Board a determination of the independence of each non-employee director under applicable rules and guidelines; and

Oversees the Company’s engagement with stockholders and other interested parties concerning governance matters and works with the Board’s other committees regarding such engagement on matters subject to the oversight of such other committees.

## 8 GOVERNANCE

### POLICIES AND STRUCTURE

#### BOARD OVERSIGHT

Our Board oversees senior management's risk-related responsibilities, reviews management policies and performance against these policies and related benchmarks.

#### AUDIT COMMITTEE

Our Board exercises its oversight of risk management primarily through meetings of the Board and the Audit Committee with management. The Audit Committee is responsible for oversight of the quality and integrity of our financial reporting and internal controls over financial reporting, including independent auditor selection, evaluation, review and oversight of the internal audit function ("Internal Audit"), which is outsourced to an independent third-party that reports directly to the Audit Committee. Internal Audit is responsible for performing our internal audit activities, which includes assessing with management, and independently validating key controls over financial reporting.

#### SUCCESSION PLANNING

The Board and the NCGC conduct an annual review of the Company's succession plans for our CEO. In conducting this review, the Board considers, among other factors, organizational and operational needs, competitive challenges, leadership AND management potential and development, and emergency situations. The CEO succession plan addresses succession in an emergency situation relating to our CEO. In addition, the Board and NCGC review and discuss with our CEO succession plans for our other executive officers.

### RISK MANAGEMENT

### DEVELOPING SKILLS AND KNOWLEDGE

#### INTEREST RATE RISK

We seek to manage our interest rate risk exposure by entering into various derivative instruments in order to minimize our exposure to potential interest rate mismatches between the interest we earn on our investments and our borrowing costs.

#### LIQUIDITY RISK

We seek to manage our liquidity risks by monitoring our liquidity position on a daily basis and maintaining a prudent level of leverage based on current market conditions and various other factors, including the health of the financial institutions that lend to us under our repurchase agreements.

#### COUNTERPARTY RISK

We seek to manage our counterparty risk by (i) diversifying our exposure across a broad number of counterparties, (ii) limiting our exposure to any one counterparty and (iii) monitoring the financial stability of our counterparties.

#### CYBERSECURITY RISK

We seek to mitigate cybersecurity risk by utilizing best in class technology reinforced by processes, policies and controls that are transparent, understood, and known. This includes

- Business Continuity, Disaster Recovery plans
- Oversight and guidance
- Enforced segregation of duties
- Threat actor analysis
- Formal information assets disposal
- Gap analyses and (if needed) remediation

## 9 GOVERNANCE

### POLICIES AND STRUCTURE

### RISK MANAGEMENT

### DEVELOPING SKILLS AND KNOWLEDGE

#### DIRECTOR EDUCATION

To assist members of the Board of Directors in remaining current with their board duties, committee responsibilities and industry developments, we encourage our directors to participate in various board member education programs, including but not limited to those sponsored by the NYSE-Corporate Board Member Board Education Program and the National Association of Corporate Directors.

These programs offer our directors access to a wide range of in-person, peer-based and webinar educational programs on corporate governance, committee duties, board leadership and industry developments

## 10 SOCIETY

### SAFE AND HEALTHY WORKPLACE

#### HEALTH AND SAFETY

The health and safety of our employees. Is one of CYS' primary foci. We comply with all applicable laws and regulations, and we strive to conduct business in ways that reduce and/or eliminate conditions that may be unhealthful or cause injury to our employees.

We urge employees to report any unsafe conditions in the workplace, and to work with management to alleviate these conditions where they may exist.

#### DISASTER PLANNING AND RECOVERY

To help mitigate the effects of natural or other disasters, we maintain a safety program intended to address the identification of potential threats to our employees, develop response procedures, emergency safety programs, written procedures, and communicate information concerning these hazards to employees. In the event of disaster, we notify, and keep our employees informed, through our Emergency Notification System ("ENS"). The ENS also allows employees to communicate if they need assistance.

### DATA SECURITY AND PRIVACY

### SOCIAL INVESTMENT

#### COMPREHENSIVE EMPLOYEE BENEFITS

We endeavor to create and sustain a corporate culture that fosters a unique, open and collaborative work environment where employees can contribute to the best of their abilities and professional capacities. Underpinning that work environment, we have designed a set of meaningful employee benefits including 100% funding of what we believe to be the best available health care, dental care, and disability plans.

CYS also offers its employees flexible hours and provides technologies designed to enable them to conduct business effectively from different locations.

Approximately 20% of the United States population suffers from low back pain, the most frequent cause of disability for persons under the age of 45. Through proper assessment of potential hazards and application of engineering controls, work practice controls, and training, significant reductions in adverse health effects can be accomplished.

CYS is committed to helping our employees prevent potential back injury within our facilities.

## 11 SOCIETY

### SAFE AND HEALTHY WORKPLACE

### DATA SECURITY AND PRIVACY

### SOCIAL INVESTMENT

CYS will utilize all reasonable means to provide data security and privacy. Through a structured, systematic, risk identification and classification process, CYS implements preventative controls, including regular training in, and testing of, those controls.

Critical areas of our production environment are replicated in real time to a SSAE16/SOC1 Type II audited data center utilizing Virtual Replication. In addition, CYS regularly:

- Identifies, assesses, and when necessary, mitigates to the extent possible, vendor-related exposures
- Enhances security awareness through exercises to evaluate staff preparedness/awareness

CYS encourages its employees to help to improve the lives of those less fortunate by participating in self-selected volunteer activities, community service work, and charitable organizations.

The Company provides up to five days per year for employee volunteering activities.

## 12 ENVIRONMENT

### ENVIRONMENTAL SUSTAINABILITY

CYS endeavors to operate its business in ways that reduce its environmental impact.

In 2016, CYS moved its corporate headquarters to a newly constructed LEED Commercial Interiors 2009 Gold Certified office building in Waltham, Massachusetts. Certification highlights include:

- 35% reduction in lighting power density
- 90% Energy Star Qualified
- 40% reduction in indoor potable water use

In addition, CYS has installed lighting controls, LED lighting, and window film to reduce energy consumption and improve comfort.

### WATER USE

Although CYS does not use significant amounts of water, we believe we have an obligation to reduce water consumption and increase water conservation.

Accordingly, given the significant amounts of water electrical power generation uses, CYS endeavors to reduce power consumption by utilizing energy efficient controls, lighting, and HVAC.

### TRASH

We recycle paper and other waste, limit use of landfills, reduce consumption of natural resources and conserve energy.

Recycle items include:

- Batteries
- Cans
- Cardboard
- Paper
- Toner cartridges
- Mobile phones

When Company IT equipment reaches 'end of useful life', it is recycled and/or shredded. Any IT equipment or component which has stored company data is shredded.

We encourage employees to use alternative forms of transportation and support programs that encourage conservation in our communities.

## 13 METRICS

### GOVERNANCE

|   |        |
|---|--------|
| Size of Board   | 6      |
| Number of Independent Directors on Board                  | 5      |
| % of Independent Directors on Board                       | 83     |
| Average Director Tenure (Years)                           | 8.2    |
| Independent Lead Director                                 | Yes    |
| Number of Women on Board                                  | 3      |
| % of Women on Board                                       | 50     |
| Directors with 3 or Fewer Public Company Board Seats      | 6      |
| Board Average Age   | 62.1   |
| Number of 2017 Board Meetings                             | 10     |
| % of Board Meeting Attendance                             | 100    |
| % of Independent Directors Board Meeting Attendance       | 100    |
| Number of Independent Directors on Audit Committee        | 4      |
| % of Independent Directors on Audit Committee             | 100    |
| Independent Audit Committee Chair                         | Yes    |
| Number of 2017 Audit Committee Meetings                   | 5      |
| % of 2017 Audit Committee Meeting Attendance              | 100    |
| Number of Independent Directors on Compensation Committee | 4      |
| % of Independent Directors on Compensation Committee      | 100    |
| Independent Compensation Committee Chair                  | Yes    |
| Number of 2017 Compensation Committee Meetings            | 5      |
| % of Compensation Committee Meeting Attendance            | 100    |
| Number of Independent Directors on NCGC*                  | 3      |
| % of Independent Directors on NCGC                        | 100    |
| Independent NCGC Chair                                    | Yes    |
| Number of 2017 NCGC Meetings                              | 5      |
| % of NCGC Meeting Attendance                              | 100    |
| Clawback Provision for Executive Compensation             | Yes    |
| Frequency of Say on Pay Votes                             | Annual |
| Auditor Ratification                                      | Yes    |

\*Nominating and Corporate Governance Committee

### SOCIETY

|                                |     |
|--------------------------------|-----|
| Number of Employees            | 16  |
| Health/Safety Policy           | Yes |
| Anti-Bribery Ethics Policy     | Yes |
| Business Ethics Policy         | Yes |
| Equal Opportunity Policy       | Yes |
| Paid Maternity Leave           | Yes |
| Weeks Paid Maternity           | 12  |
| Number of Weeks Paid Maternity | 12  |
| Paid Paternity Leave           | Yes |
| Weeks Paid Paternity           | 8   |
| Code of Conduct                | Yes |
| Whistleblower Policy           | Yes |
| Offers Flexible Work Schedule  | Yes |
| Offers Flexible Work Location  | Yes |

### ENVIRONMENT

|                 |     |
|-----------------|-----|
| Green Building  | Yes |
| Waste Reduction | Yes |
| Water Policy    | Yes |



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