

# **CTS CORPORATION**

## **Corporate Governance Guidelines**

The Board of Directors (the “Board”) of CTS Corporation (“CTS” or the “corporation”) has adopted these Corporate Governance Guidelines to reflect the Board’s strong commitment to sound corporate governance practices and to encourage effective policy and decision making both at the Board and management level, with a view to enhancing long-term value for CTS shareholders. These Corporate Governance Guidelines are intended to assist the Board in the exercise of its governance responsibilities and serve as a framework within which the Board may conduct its business. CTS’ governance structure is designed to be a working structure for principled actions, effective decision-making and appropriate monitoring of both compliance and performance.

These Corporate Governance Guidelines are not intended to change or interpret any federal or state law or regulation, including the Business Corporation Law of the State of Indiana, or the Amended and Restated Articles of Incorporation or Bylaws of CTS. These Corporate Governance Guidelines are subject to modification from time to time by the Board.

### **ROLE OF THE BOARD:**

The basic responsibility of each member of the Board (each a “director” and collectively, the “directors”) is to exercise his/her business judgment to act in what he/she reasonably believe to be in the best interests of CTS. A director may, in considering the best interests of CTS, consider the effects of any action on shareholders, employees, suppliers, and customers of CTS, and communities in which offices or other facilities of CTS are located, and any other factors the director considers pertinent. The Board is mindful of CTS’ global social and environmental responsibilities and expects management to keep those imperatives in focus in all major decisions. In addition, the Board expects that management will respect the cultures and customs of CTS’ international operations and employees.

The Board believes that day-to-day management of CTS is the responsibility of management and that the role of the Board is to oversee management’s performance of that function and to lead the CEO succession process. In discharging their obligation, directors should be entitled to reasonably rely on the competence and integrity of CTS’ senior executives and its outside advisors and auditors. The Board reviews CTS’ annual operating plan and specific goals at the start of the fiscal year and reviews financial performance quarterly. The Board expects that long-range strategic issues will be discussed regularly at Board meetings.

The Board believes that the long-term success of CTS depends on maintaining an ethical business environment and expects that management will conduct CTS’ operations in a manner consistent with this. The Board believes that the management speaks for CTS. Individual Board members may, from time to time, meet or otherwise communicate with various constituencies that are involved with CTS. But it is expected that Board members

would do this with the knowledge of the management and, absent unusual circumstances or as contemplated by the committee charters, only at the request of or in collaboration with the management.

#### **COMPOSITION OF THE BOARD:**

The Board will be composed of between three to fifteen directors. In the absence of Board action, the number of directors defaults to seven. In general, the Board believes its optimum size is in the range of seven to nine members. The Board will be composed of a substantial majority of directors who, in the business judgment of the Board, qualify as independent directors under the applicable rules, regulations, and listing requirements of the New York Stock Exchange ("NYSE").

It is expected that CTS' CEO will serve as a director. The Board does not require the separation of offices of the Chairperson of the Board and the CEO. Either the CEO or a non-executive director will serve as Chairperson of the Board. If the CEO is the Chairperson of the Board, the Board will elect an independent director as Lead Director. No more than two current employees of the corporation may serve on the Board at any time. Nominees for directorship will be selected by the Nominating, Governance and Sustainability Committee (the "NG&S Committee") in accordance with the policies and principles in its charter.

#### **DEFINITION OF INDEPENDENT DIRECTOR:**

The Board will make an annual affirmative determination of the independent or non-independent status of each director, based on the recommendation of the NG&S Committee. A director will not qualify as independent unless he or she has no material relationship with CTS apart from his or her service as a director as defined by the NG&S Committee from time to time in accordance with the criteria of the NYSE, federal securities laws and the rules and regulations of the Securities and Exchange Commission ("SEC").

#### **QUALIFICATION OF MEMBERS:**

The NG&S Committee is responsible for reviewing with the Board, on an annual basis, the requisite skills and characteristics of new Board members as well as the composition of the Board as a whole. This assessment will include members' qualification as independent, as well as consideration of diversity, age, skills and experience in the context of the needs of the Board. The Board strives for diversity among its members. The NG&S Committee will oversee the director selection process with input from the CEO and will recommend director candidates to the full Board for approval.

#### **BOARD PARTICIPATION AND PROFESSIONALISM:**

Directors are expected to attend Board meetings and meetings of committees on which they serve, and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities. Directors are expected to prepare in advance for committee and Board meetings by reading Board materials and by giving due

consideration to matters that will come before the Board or committee. Directors are expected to actively contribute to Board and committee meetings.

#### **RETIREMENT AGE AND TERM LIMITS:**

A director will submit an offer of resignation to be effective at the next annual meeting after the date on which he/she reaches the age of 75. The NG&S Committee will review each director's continuation on the Board annually. This will allow each director the opportunity to confirm his or her desire to continue as a member of the Board. The NG&S Committee may recommend that an exception to this policy should be made to allow a director to serve for additional term(s) upon approval of the full Board.

#### **BOARD AND COMMITTEE PERFORMANCE REVIEWS:**

The Board and its various committees will, at least annually, conduct a self-evaluation to determine whether it and its committees are functioning effectively. The evaluations should include the individual director contributions as well as the Board's and committee's contribution as a whole and specific areas in which improvements could be made.

#### **CEO PERFORMANCE EVALUATION:**

The non-employee directors will annually review and evaluate the performance of the CEO in accordance with a written process and based upon objective criteria. Such criteria shall include performance of the business and accomplishment of objectives previously established in consultation with the CEO. The review shall initially be conducted by the Compensation & Talent Committee and then reviewed by the Board. The results of the review and evaluation are to be used in considering the compensation of the CEO.

#### **COMMITTEES OF THE BOARD:**

The current standing Board committees are the Nominating, Governance and Sustainability, Audit, Technology and Transactions and Compensation and Talent Committees. In addition to the standing committees, the Board may establish, from time to time, such ad hoc committees as may be desirable for specific purposes. The Board will have at all times an Audit Committee, a Compensation and Talent Committee and a Nominating, Governance and Sustainability Committee. All of the members of these committees will be independent directors under the criteria described in these guidelines within the periods mandated by the SEC.

Each committee will have a written charter to govern and guide its duties and responsibilities. The charters will also provide that each committee will annually evaluate its performance. The Chair of each committee, in consultation with the appropriate members of the committee and management, will develop the committee's agenda. At the beginning of the year each committee will establish a schedule of agenda subjects to be discussed during the year (to the degree these

can be reasonably foreseen). The schedule for each committee will be furnished to all directors. The Board and each committee have the power to hire independent legal, financial or other advisors, as they may deem necessary, without consulting or obtaining the approval of any officer of the corporation in advance. The Board may establish other committees as circumstances warrant. The Nominating, Governance and Sustainability Committee will recommend appointments to committees and committee chair positions, which will be determined by the full Board. It is the sense of the Board that consideration should be given to rotating committee members periodically, but the Board does not feel that rotation should be mandated as a policy.

## **REMOVAL AND RESIGNATION FROM THE BOARD:**

Directors are expected to offer to resign from the Board when they change employment or the major responsibilities they held when they joined the Board. Such directors should not necessarily leave the Board, but this policy will provide an opportunity for the Board to review the appropriateness of their continued service.

If a director nominee fails to receive the required vote and is an incumbent director, the director shall promptly tender his or her resignation to the Board, subject to acceptance by the Board. The NG&S Committee shall promptly consider the tendered resignation and make a recommendation to the Board whether to accept or reject the tendered resignation or determine whether other action should be taken. The Board will act on the tendered resignation, taking into account the NG&S Committee's recommendation, and publicly disclose (by a press release, a filing with the SEC or other broadly disseminate means of communication) its decision regarding the tendered resignation and the rationale behind the decision within 90 days from the date of the certification of the election results. The NG&S Committee, in making its recommendation, and the Board, in making its decision, may each consider any factors or other information they may consider appropriate and relevant.

The director who tenders his or her resignation may not participate in the recommendation of the NG&S Committee or the decision of the Board with respect to his or her resignation. If an incumbent director's resignation is not accepted by the Board, such director may continue to serve until the next annual meeting of shareholders and until his or her successor is duly elected, or his or her earlier resignation or removal. If a director's resignation is accepted by the Board, or if a director nominee fails to receive the required vote and the nominee is not an incumbent director, then the Board may fill the resulting vacancy or may decrease the size of the Board in each case pursuant to the applicable provisions of the corporation's Amended and Restated Bylaws.

## **OTHER SERVICE:**

The Board believes that directors should limit the number of boards on which they serve to the extent necessary to give proper attention to each board's responsibility. In the event that a director wishes to join the board of another company, it is expected that he or she will advise the Chairperson of the Board. The Chairperson will then consult with the NG&S Committee regarding whether a potential conflict of interest might arise with such new commitment and whether the new commitment will allow the director to continue to fulfill his or her obligations to the corporation.

## **MEETINGS OF INDEPENDENT DIRECTORS:**

In general, the agenda for every regularly scheduled Board meeting will include a meeting of the independent directors as defined by the listing requirements of the NYSE, in executive session. The independent directors will meet in executive session at other times at the request of any independent director. The presiding director for the meetings of the independent directors, meeting in separate session, will be the Lead Director or, if unavailable, such other independent director as is selected by a majority of the independent directors. Topics to be considered in independent director sessions shall include, but not be limited to:

- Discussing the CEO evaluation;
- Discussing management succession issues;
- Assessing the scope, content and frequency of information provided to the Board by management and recommending improvements; and
- Developing recommendations for future Board agendas.

## **MEETING FREQUENCY AND ATTENDANCE:**

The number of regularly scheduled meetings per year for the Board and its committees will, at a minimum, be as follows:

- Board of Directors – four
- Audit Committee - six
- Nominating, Governance and Sustainability Committee - four
- Technology and Transactions Committee - three
- Compensation and Talent Committee - four

Additional meetings are scheduled on an as-needed basis throughout the year. Directors are expected to attend Board and committee meetings in person unless the meeting is scheduled as a telephone or videoconference meeting or exigent circumstances exist.

## **MEETING AGENDA AND MATERIALS:**

The Chairperson of the Board will determine the agenda for Board meetings with input from the full Board. Directors are encouraged to suggest agenda items and the Chairperson will periodically solicit suggestions from directors. Agendas and materials related to agenda items will be provided to directors sufficiently in advance of meetings to allow directors to prepare for discussion of those items. Each board member is free to raise at any Board meeting subjects that are not on the agenda for that meeting. The Board will review the corporation's long-term strategic plans and the principal issues that the corporation will face in the future during at least one Board meeting each year.

## **COMPENSATION OF DIRECTORS:**

The form and amount of director compensation will be recommended to the Board by the Compensation and Talent Committee in accordance with the policies and principles set forth

in its charter. The Compensation and Talent Committee will regularly review director compensation and make recommendations to the Board regarding any appropriate modifications. Director compensation should support CTS' goal of attracting and retaining the most qualified persons to the Board. Director compensation should normally include stock-based components to align the interests of the directors with those of the shareholders. Directors who are current employees of CTS will not receive any additional compensation for their services as directors.

#### **MANAGEMENT DEVELOPMENT AND SUCCESSION PLANNING:**

The CEO will report annually to the Board on management development and succession planning. The NG&S Committee will make an annual report to the Board on Board and CEO succession planning. The entire Board, or a specially formed committee thereof, will work with the NG&S Committee to nominate and evaluate potential successors to the CEO. The CEO will make available his or her recommendations and evaluations of potential successors, along with a review of any development plans recommended for such individuals.

#### **STOCK OWNERSHIP:**

It is the intention of CTS to align the interests of the members of the Board and executives with those of the shareholders. Stock ownership in CTS is encouraged through stock ownership guidelines adopted by the Board. Equity awards by CTS to the directors and executives will be included in determining compliance with the stock ownership guidelines. Upon the request of a director or executive, the Compensation and Talent Committee may consider a waiver of the guidelines in view of the personal circumstances of the director or executive.

#### **CONFLICTS OF INTEREST:**

Any situation that may be construed as disqualifying a director as "independent" should be brought to the attention of the NG&S Committee which will make a recommendation to the Board regarding the director's continued service on the Board or Board committees.

#### **DIRECTOR ACCESS TO OFFICERS AND EMPLOYEES:**

Directors will have full and free access to CTS officers and employees. Any meetings or contacts that a director wishes to initiate may be arranged through the CEO or the Corporate Secretary or directly by the director. The directors will use their judgment to ensure that any such contact is not disruptive to the business operations of CTS and will, to the extent not inappropriate, copy the CEO on any written communications between a director and an officer or employee of CTS.

The Board encourages periodic attendance at Board meetings by senior officers of the corporation as well as by high potential/high performance employees with which management wishes to familiarize the directors.

## **DIRECTOR ORIENTATION AND CONTINUING EDUCATION:**

All new directors must participate in CTS' initial orientation process. The orientation process typically includes presentations by senior management to familiarize new directors with CTS' strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its Code of Ethics, its principal officers and its internal and independent auditors. All other directors are also invited to attend the orientation process.

All directors are encouraged to participate in director continuing education programs they deem appropriate. The corporation will reimburse a director in accordance with standard practices for attendance at up to two programs in any eighteen-month period. Management will monitor significant corporate governance initiatives and will periodically present to the directors those topics which merit updated or refresher education/information as appropriate. The NG&S Committee and the Board will periodically receive a presentation regarding developments in corporate governance since the last such presentation.

## **BOARD CONFIDENTIALITY**

Directors will maintain the confidentiality of non-public information received in their capacities as directors, including Board and Board committee communications, discussions and materials.

## **SHAREHOLDER COMMUNICATIONS WITH THE BOARD**

Shareholders may contact the Board about bona fide issues or questions about CTS by contacting CTS' Corporate Secretary at CTS' principal executive offices located at 4925 Indiana Avenue, Lisle, Illinois 60532. Each communication should specify the applicable addressee or addressees to be contacted, the general topic of the communication and the number of shares of CTS' stock that are owned of record (if a record holder) and/or beneficially. If a shareholder wishes to contact the independent directors, he or she should address such communication to the attention of the Lead Independent Director at the address noted above. CTS' Corporate Secretary will initially receive and process communications before forwarding them to the addressee, and generally will not forward a communication that is determined to be primarily commercial in nature, related to an improper or irrelevant topic or a request for general information about CTS or its business.

## **REVIEW, AMENDMENT AND WAIVER OF GUIDELINES:**

The NG&S Committee will annually review these guidelines and propose any changes it deems appropriate to the Board for consideration. The Board may amend these guidelines or grant waivers in circumstances it deems exceptional, provided that any such modification or waiver may not be a violation of any applicable law, rule or regulation.

