TWO HARBORS
Investment Corp.
A Pine River Capital Managed Company

590 Madison Avenue, 36th Floor
New York, New York 10022
Tel: (612) 629-2500

November 9, 2015

Institutional Shareholder Services
702 King Farm Boulevard, Suite 400
Rockville, MD 20850

RE: Proposed ISS Voting Policies for 2016

Dear Sir or Madam:

Two Harbors Investment Corp. ("***Two Harbors***", "***we***" or "***us***") is pleased to submit this letter in response to Institutional Shareholder Services' ("***ISS***") request for comments in connection with certain proposed voting policies for 2016. Specifically, our comments address the proposed policy to recommend "against" votes with respect to the say-on-pay proposals for externally-managed issuers where the public disclosures of such issuers with respect to executive compensation are insufficient for ISS to complete a comprehensive pay analysis. While we are supportive of ISS' commitment to improving corporate transparency and governance practices, we have concerns regarding the value and potential adverse impacts of the incremental disclosures that such a policy would potentially demand. In addition, the draft proposal does not sufficiently detail the information that ISS may require.

<u>Our Background</u>

Two Harbors is a hybrid mortgage real estate investment trust ("***REIT***") that invests in residential mortgage-backed securities, residential mortgage loans, mortgage servicing rights, commercial real estate and other financial assets. We are committed to providing capital solutions to the U.S. real estate market, and as of September 30, 2015, we managed a portfolio of assets valued at $14.1 billion. We are externally managed and advised by a subsidiary of Pine River Capital Management L.P. ("***Pine River***"), a global multi-strategy asset management firm. While Two Harbors does not have any employees, certain employees of Pine River have been designated as executive officers of Two Harbors and are identified as such with respect to our public company disclosure and corporate governance requirements.

Generally speaking, publicly-traded REITs represent an important source of funding to U.S. real estate industry and provide their stockholders the opportunity to participate in the real estate market. As referenced in the policy proposal, many publicly-traded REITs utilize an external-management structure whereby the issuing company has no employees of its own and instead engages an external manager to operate its business. This external management structure allows REITs to operate with more limited infrastructure, which reduces overhead costs and provides certainty regarding the operating expenses required to run their businesses. Via this structure, many REITs also have access to greater infrastructure and resources of the external manager than they otherwise would if they were to internalize operations. This is a significant benefit to stockholders.

Current REIT Disclosure Practices

Any determination with respect to this proposed policy must take into consideration disclosures that externally-managed REITs currently provide. We and many other REITs do disclose the information that we feel is of greatest relevance to our stockholders and that is in compliance with the rules and regulations of the U.S. Securities and Exchange Commission ("***SEC***"). For example, our disclosures include both detailed discussions of the management fee paid to Pine River, which is used to compensate Pine River employees, as well as equity compensation that we pay directly to Pine River employees who support our business. In addition, our stockholders have the opportunity to provide input on our executive compensation practices and disclosures via our annual say-on-pay vote.

The details of the management agreement and the amount of the fees paid to the external manager are of critical importance to the stockholders of externally-managed REITs. Such terms, including the agreement itself, and details of our payments to Pine River are publicly available. These terms are reviewed by our Board of Directors on a periodic basis and require Pine River to manage our business in conformity with the policies and guidelines approved and monitored by our Board. Based on this disclosure, our stockholders have the ability to assess the fairness of the relationship with Pine River and, importantly, to review the actual amount of fees paid in comparison to the company's financial performance.

The details of any equity compensation paid by a publicly-traded REIT to the employees of its external manager are also of critical importance to stockholders. Two Harbors has established an equity compensation plan ("***Plan***") through which it may compensate employees of Pine River directly for services provided. The terms and conditions of the Plan, and the awards thereunder, as well as detailed information regarding all awards issued to executive officers pursuant to the Plan are fully disclosed in our SEC filings. These disclosures allow our stockholders to assess the extent to which the interests of our executives, the company and its stockholders are aligned. These disclosures also allow stockholders to assess whether the amount of equity compensation paid to individual executives is appropriate relative to performance.

We recognize that stockholders' ability to provide input with respect to a company's executive compensation practices and disclosure is an important element of good corporate governance, and we carefully consider the results of prior say-on-pay votes in making compensation decisions. Our stockholders have shown strong support for these votes, as evidenced by our receiving "for" votes representing approximately 94%, 97% and 97% of votes cast in the past three years. Furthermore, stockholder requests for additional information or clarity regarding the compensation-related information that we provide have been virtually non-existent. Simply put, we feel that our stockholders have been provided the information of greatest importance with respect to compensation and the company's performance, and the response has been overwhelmingly positive. We feel our approach to compensation disclosure has served us and our stockholders well, and we expect similarly situated REITs would agree.

SEC Requirements

As referenced, our disclosures and the disclosures of many other externally-managed REITs related to executive compensation are consistent with SEC rules and regulations and have also been subject to review and comment by the SEC. The commonly accepted practice that has developed has been that, because externally-managed issuers do not pay certain forms of compensation (*e.g.*, salary, bonuses) directly to individuals who support the business, many of the SEC's disclosure requirements related to such forms of compensation simply do not apply. That said, elements of compensation that are paid directly by an issuer (*e.g.*, equity compensation) are required to be disclosed per SEC rules. We and other externally-managed REITs have developed our disclosures in a manner consistent with this framework. Any change in policy on this issue may create confusion amongst issuers by promoting disclosure standards that are inconsistent with the framework accepted by the SEC.

We feel the compensation information we currently disclose is the most relevant we can provide to our stockholders, and the feedback of the SEC indicates they are in agreement. Furthermore, stockholders have an opportunity to provide input via our annual say-on-pay votes with respect to the terms and amounts of executive compensation. As such, the current disclosure and governance framework includes controls that protect against insufficient compensation or disclosure practices.

<u>Impact on External Managers</u>

An important implication to be considered with respect to the proposed policy is the potential adverse impact to external management companies. Many managers of publicly-traded REITs are not publicly traded themselves and may engage in additional businesses or opportunities unrelated to the management of the REIT. Pine River, for example, manages numerous investment funds and institutional client accounts that are completely separate from the activities of Two Harbors. As such, compensation determinations for the employees of external management firms may be influenced, appropriately, by factors in addition to the performance of an externally-managed issuer. These factors may represent proprietary and sensitive information regarding the manner in which the manager compensates its employees, as well as sensitive performance information regarding initiatives unrelated to the externally-managed issuer.

ISS should be cognizant that an overly broad policy may have the effect of forcing private companies to disclose sensitive and proprietary information regarding its compensation practices and performance. Such a circumstance would not only be detrimental to the private companies, but would also create confusion for the stockholders of externally-managed issuers by drawing attention away from matters impacting the issuer's business. Such a change may also dissuade firms from utilizing an external management structure, which is understood and valued within the real estate industry and by stockholders.

<u>Lack of Detail Regarding Required Information</u>

Notwithstanding our concerns regarding the potential adverse impact of the policy change, the proposed policy does not set forth in sufficient detail the information that ISS will require in order to complete its comprehensive compensation analysis. As such, there is the potential for uncertainty amongst externally-managed issuers with regard to the scope and details of the additional information that is needed. It may be the case that issuers will elect to provide additional sensitive information in an attempt to be responsive to the new policy (even if it is not required under SEC rules and regulations), only to be informed it is still not sufficient.

If ISS ultimately determines a policy change on this issue is merited, it would be appropriate for the final version of the policy to specifically identify the elements of compensation that it feels are necessary to be disclosed. Such details should include the officers covered as well as the compensation terms and data required for ISS to complete a comprehensive pay analysis. Additional detail in this regard would serve to limit confusion on the part of externally-managed issuers. It would also be appropriate for ISS to provide issuers the opportunity to comment on such details before any policy is finalized.

Conclusion

As previously stated, Two Harbors is appreciative of the opportunity to comment on the proposed ISS voting policies for 2016 and is supportive of the principles of transparency and good corporate governance with respect to executive compensation. We have been careful to develop a compensation program that benefits our stockholders and to disclose the details of that program in a manner that is useful to our stockholders and in compliance with SEC rules and regulations. We view our strong say-on-pay voting results as evidence that the information we are providing is sufficient. We would be pleased to discuss further at your convenience.

Sincerely,

Mychal S. Brenden
Corporate Counsel