# Corporate Governance Guidelines

## I. Introduction

The Board of Directors (the "Board") of Sunstone Hotel Investors, Inc. (the "Company"), acting on the recommendation of its Nominating and Corporate Governance Committee, has developed and adopted a set of corporate governance principles (the "Guidelines") to promote the functioning of the Board and its committees and to set forth a common set of expectations as to how the Board should perform its functions.

## II. Board Composition

The composition of the Board should balance the following goals:

1. The size of the Board should facilitate substantive discussions of the whole Board in which each director can participate meaningfully.

2. The composition of the Board should encompass a broad range of skills, expertise, industry knowledge, diversity of opinion and contacts relevant to the Company's business.

3. A majority of the Board shall consist of directors who the Board has determined have no material relationship with the Company and who are otherwise "independent" under the rules of the New York Stock Exchange. The Board will make an affirmative determination at least annually as to the independence of each director.

## III. Selection of Chairman of the Board and Chief Executive Officer

The Board is free to select its Chairman and the Company's Chief Executive Officer (the "CEO") in the manner it considers in the best interests of the Company at any given point in time. These positions may be filled by one individual or by two different individuals.

## IV. Selection of Directors

1. *Nominations.* The Board is responsible for selecting the nominees for election to the Company's Board of Directors. The Company's Nominating and Corporate Governance Committee (the "NCG") is responsible for recommending to the Board a slate of directors or one or more nominees to fill vacancies occurring between annual meetings of stockholders.

2. *Criteria.* The Board should, based on the recommendation of the NCG, select new nominees for the position of director considering the following criteria:

   - Personal qualities and characteristics, accomplishments and reputation in the business community;

   - Current knowledge and contacts in the communities in which the Company does business and in the Company's industry or other industries relevant to the Company's business;

   - Ability and willingness to commit adequate time to Board and committee matters;

- The fit of the individual's skills and personality with those of other directors and potential directors in building a Board that is effective, collegial and responsive to the needs of the Company;

- Diversity of viewpoints, background, skills, experience, and other demographics, as well as, diversity of gender, ethnicity, and representation from underrepresented communities; and

- Representation of significant shareholders and the purpose and nature of the interests represented.

3. *Invitation.* The invitation to join the Board should be extended by the Board itself via the Chairman of the Board and CEO of the Company, together with an independent director, when deemed appropriate.

4. *Orientation and Continuing Education.* Management, working with the Board, will provide an orientation process for new directors, including background material on the Company, its business plan and its risk profile, and meetings with senior management. Periodically, management should prepare additional educational sessions for directors on matters relevant to the Company, its business plan and risk profile. These may be done as part of regular board meetings.

5. *Resignation Policy.* Section 2.7 of the Company's Bylaws contain provisions relating to the election of directors. If a nominee who is already serving as a director is not elected pursuant to the applicable standard, the director shall tender his or her resignation to the Board. The NCG will make a recommendation to the Board on whether to accept or reject the resignation or whether other action should be taken. The Board will act on the NCG's recommendation and publicly disclose its decision and the rationale behind it within 90 days from the date of the certification of the election results. The director who tenders his or her resignation will not participate in the NCG's recommendation or the Board's decision. Notwithstanding the foregoing, the Board shall be required to accept any resignation tendered by a nominee who is already serving as a director if such nominee shall have received more votes "against" or "withheld" than "for" his or her election at each of two consecutive annual meetings of stockholders for the election of directors at which a quorum was present and the number of director nominees equaled the number of directors to be elected at each such annual meeting of stockholders.

## V. Election Term

The Board does not believe it should establish term limits.

## VI. Retirement of Directors

The Board believes it should not establish a mandatory retirement age.

## VII. Board Meetings

The Board currently plans at least four meetings each year, with further meetings to occur (or action to be taken by unanimous consent) at the discretion of the Board. The meetings will usually consist of committee meetings and the Board meeting. The agenda for each Board meeting will be prepared by the Corporate Secretary. Any member of the Board may request that an item be included on the agenda. Management will seek to provide all directors an agenda and appropriate materials in advance of meetings, although the Board recognizes that this will not always be consistent with the timing of transactions and the operations of the business and that in certain cases it may not be possible.

Materials presented to the Board or its committees should be as concise as possible, while still providing the desired information needed for the directors to make an informed judgment.

**VIII. Executive Sessions**

To ensure free and open discussions and communication among the non-management directors of the Board, the non-management directors will meet in executive sessions periodically, with no members of management present. The non-management directors shall designate the director who will preside at the executive sessions. Non-management directors who are not independent under the rules of the New York Stock Exchange may participate in these executive sessions, but independent directors should meet separately in executive session at least once per year.

**IX. The Committees of the Board**

The Company shall have at least the committees required by the rules of the New York Stock Exchange. Currently, these are the Audit Committee, the Compensation Committee, and a Nominating and Corporate Governance Committee. Each of these three committees must have a written charter satisfying the rules of the New York Stock Exchange and setting forth the responsibilities, duties and authority of the committee. The Audit Committee must also satisfy the requirements of SEC Rule 10A-3.

All members of the Audit Committee, Compensation Committee and NCG will be independent directors. Each committee member must satisfy the required qualifications set out in the respective committee's charter. A director may serve on more than one committee for which he or she qualifies.

All directors, whether members of a committee or not, are invited to make suggestions to a committee chair for additions to the agenda of his or her committee or to request that an item from a committee agenda be considered by the Board. Each committee chair will give a periodic report of his or her committee's activities to the Board.

**X. Management Succession**

At least annually, the Board shall review and concur in a succession plan, developed by management, addressing the policies and principles for selecting a successor to the CEO, both in an emergency situation and in the ordinary course of business. The succession plan should include an assessment of the experience, performance, skills and planned career paths for possible successors to the CEO.

**XI. Executive Compensation**

1. *Evaluating and Approving Salary for the CEO*. The Board, acting through the Compensation Committee, evaluates the performance of the CEO and the Company against the Company's goals and objectives and approves the compensation level of the CEO.

2. *Evaluating and Approving the Compensation of Management*. The Board, acting through the Compensation Committee, evaluates and approves the proposals for overall compensation policies applicable to members of senior management.

## XII. Board Compensation

The Board should conduct a review at least once every three years of the components and amount of Board compensation in relation to other similarly situated companies. Board compensation should be consistent with market practices but should not be set at a level that would call into question the Board's objectivity. The Board believes it is important to align the interests of the independent directors with those of the stockholders and for directors to hold equity ownership positions in the Company. Accordingly, each non-employee director is expected to retain share ownership as set forth in the Company's Director Stock Ownership Policy applicable to directors.

## XIII. Expectations of Directors

The business and affairs of the Company shall be managed by or under the direction of the Board in accordance with Maryland law. In performing their duties, the primary responsibility of a director is to perform his or her duties in good faith, in a manner he or she reasonably believes to be in the Company's best interests and with the care of an ordinarily prudent person in a like position under similar circumstances. The Board has developed a number of specific expectations of directors to promote the discharge of this responsibility and the efficient conduct of the Board's business.

1. *Commitment and Attendance.* All directors should make every effort to attend meetings of the Board and meetings of committees of which they are members. Members may attend by telephone or video conference to mitigate conflicts.

2. *Participation in Meetings.* Each director should be sufficiently familiar with the business of the Company, including its financial statements and capital structure, and the risks and competition it faces, to facilitate active and effective participation in the deliberations of the Board and of each committee on which he or she serves. Upon request, management will make appropriate personnel available to answer any questions a director may have about any aspect of the Company's business. Directors should also review the materials provided by management and advisors in advance of the meetings of the Board and its committees and should arrive prepared to discuss the issues presented.

3. *Loyalty and Ethics.* The Company has adopted a Code of Business Conduct and Ethics (the "Code"), including a compliance program to enforce the Code. Certain portions of the Code deal with activities of directors, particularly with respect to transactions in the securities of the Company, potential conflicts of interest, the taking of corporate opportunities for personal use, and competing with the Company. Directors should be familiar with the Code's provisions and are expected to comply with the Code. Directors should consult with the Company's counsel in the event of any issues.

4. *Other Directorships.* The Company values the experience directors bring from other boards on which they serve, but recognizes that those boards may also present demands on a director's time and availability and may present conflicts or legal issues. To that end, a director may not serve on the boards of more than four public companies (including the Board), *provided that*, any director who also serves as a named executive officer of a public company should not serve on more than two public company boards (including the Board). All director nominees must be in compliance with the above requirements as of the date of the mailing of the proxy statement for the Company's next occurring annual meeting of stockholders following the date of such nomination. Additionally, directors must comply with Section XVII below before accepting membership on other boards of directors and shall advise the Chair of the NCG and the CEO before accepting other significant commitments involving affiliation with other businesses or governmental units.

5. *Contact with Management and Advisors.* All directors are invited to contact the CEO at any time to discuss any aspect of the Company's business. Directors shall have access to any independent advisor retained by the Company and shall also have complete access to other members of management. The Board expects that there will be frequent opportunities for directors to meet with the CEO and other members of management in Board and committee meetings and in other formal or informal settings. Further, the Board encourages management to, from time to time, bring managers into Board meetings who: (a) can provide additional insights into the items being discussed because of personal involvement and substantial knowledge in those areas, and/or (b) are managers with future potential that the senior management believes should be given exposure to the Board.

6. *Contact with Other Constituencies.* It is important that the Company speak to employees and outside constituencies with a single voice, and that management serve as the primary spokesperson.

7. *Confidentiality.* The proceedings and deliberations of the Board and its committees are confidential. Each director shall maintain the confidentiality of information received in connection with his or her service as a director.

**XIV. Evaluating Board Performance**

The Board, acting through the NCG, should conduct a self-evaluation at least annually to determine whether it is functioning effectively. The NCG should periodically consider the mix of skills and experience that directors bring to the Board to assess whether the Board has the necessary tools to perform its oversight function effectively. Each committee of the Board should conduct a self-evaluation at least annually and report the results to the Board, acting through the NCG. Each committee's evaluation must compare the performance of the committee with the requirements of its written charter, if any.

**XV. Reliance on Management and Outside Advice**

In performing its functions, the Board is entitled to rely on the advice, reports and opinions of management, counsel, accountants, auditors and other expert advisors. The Board shall have the authority to retain and approve the fees and retention terms of its outside advisors.

**XVI. Rights Plan**

The Company shall seek stockholder approval prior to its adoption or subsequent amendment, extension or renewal of a Rights Plan (as defined below), unless the Board determines that, under the circumstances existing at the time, it is in the best interests of the Company to adopt or amend, extend or renew such Rights Plan without delay. If a Rights Plan is adopted or amended, extended or renewed by the Board without prior stockholder approval, such Rights Plan must provide that it will expire within 12 months of such action by the Board unless such Rights Plan shall have been ratified by the stockholders by the affirmative vote of at least a majority of all the votes entitled to be cast on the matter.

The term "Rights Plan" refers generally to any plan or agreement (sometimes referred to as a "poison pill") providing for the distribution of shares of preferred stock, rights, warrants, options or debt instructions to the Company's stockholders, designed to assist the Board in responding to unsolicited takeover proposals and significant share accumulations in a manner that facilitates the exercise of the Board's duties by conferring certain rights on shares of common stock upon the occurrence of a "triggering event" such as a tender offer or third party acquisition of a specified percentage of shares of common stock.

**XVII. Third-Party Board Approval Policy**[1]

1. *Directorship Notice.* The Company's directors and members of management must be willing and able to devote sufficient time and attention to effectively carry out their duties and responsibilities to the Company and its stockholders. Accordingly, prior to accepting an invitation to serve on the board of directors of any third party public or private for profit company (a "Third Party Company"), a director or member of management (the "Candidate") must advise the Board Chairperson, the NCG Chairperson and the CEO in writing of such opportunity, including whether it is then contemplated that the Candidate will serve on any committee of the Third Party Company's board of directors (the "Directorship Notice"). The Directorship Notice shall be delivered to the Board Chairperson, the NCG Chairperson and the CEO by email with a copy to the Company's General Counsel. In considering whether to serve on the board of a Third Party Company, a Candidate must consider the required time commitments and whether such time commitments may negatively impact their ability to fulfill their duties and responsibilities to the Company and its shareholders, as well as any potential for conflict of interest in fulfilling the duties in both roles.

2. *Approval Process.* Each of the Board Chairperson, the NCG and the CEO will review on a case-by-case basis whether any outside directorship may create a conflict of interest or unduly affect a Candidate's ability to fulfill his or her duties to the Company and its stockholders. In making its decision, the Board Chairperson, the NCG and the CEO may, on a confidential basis, consult with other members of the Board, members of management and/or outside counsel, and will take into consideration, among other things, the business in which the Third Party Company is engaged, potential conflicts of interest, Institutional Shareholder Services' policies disclosure requirements of the New York Stock Exchange and other policies of the Company. The Board Chairperson, the NCG and the CEO shall use their best efforts to either approve or deny a Candidate's request to join a Third Party Board within five (5) business days of receipt of a Directorship Notice.

[1] **Amended Policy**. The Third-Party Board Approval Policy set forth herein is intended to replace and supersede all preceding policies on the matter, including without limitation the Third-Party Disclosure Policy established and effective as of May 22, 2013.