

Investor Perspectives on Board Diversity

In recent years, public company boards have increasingly faced shareholder pressure to boost boardroom diversity. This includes diversity of skills, experience, age, gender, and race/ethnicity, among other forms of diversity. Companies should be prepared to demonstrate—via public disclosures and other forms of communication, as necessary—how they are taking a proactive approach to increasing or maintaining diversity on their boards.

This tool provides comments from an array of institutional investors and pension funds that have spoken out about the importance of diversity as a governance imperative.

Public company boards can use the following chart and the extensive comments that follow to determine what some of their major investors (and proxy advisory firms) have indicated are their priorities related to board diversity. Boards can consider their major investors' comments when using a complimentary NACD tool—[Director Tip Sheet: Discussing Boardroom Diversity With Major Shareholders](#)—when preparing for director-investor conversations.

Summary Chart of Investors' and Proxy Advisors' Diversity Priorities

| | Long-Term Value Creation | Improving Risk Mitigation | Enhancing Diversity Disclosures | Board Skill Set | Board Evaluations | Director Nomination/Recruitment | Using Proxy Vote to Increase Diversity |
|---|--------------------------|---------------------------|---------------------------------|-----------------|-------------------|---------------------------------|--|
| Pension Funds | | | | | | | |
| The California Public Employees' Retirement System | x | | x | x | | x | x |
| The California State Teachers' Retirement System | x | x | x | x | x | x | |
| Coalition of Pension Fund Fiduciaries | x | | x | | | | |
| Los Angeles County Employees Retirement Association | x | | x | | | x | |
| New York City Comptroller | x | | | | | | |
| State Board of Administration of Florida | x | | x | | | | |
| UAW Retiree Medical Benefits Trust | x | | x | | | x | |
| Washington State Investment Board | x | | | x | | x | x |

Summary Chart of Investors' and Proxy Advisors' Diversity Priorities (cont.)

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|------------------------------------|--------------------------|---------------------------|---------------------------------|-----------------|-------------------|---------------------------------|--|
| Institutional Shareholders | | | | | | | |
| BlackRock | x | | x | | | x | x |
| Capital Group | x | | | | | | |
| Fidelity Investments | | | x | | | | |
| State Street Global Advisors | x | x | | | | | x |
| TIAA | x | | x | | | | |
| T. Rowe Price Group | | x | | x | x | | |
| The Vanguard Group | x | | | | | | |
| Proxy Advisory Firms | | | | | | | |
| Glass Lewis | | | x | | | x | x |
| Institutional Shareholder Services | | | x | | | | x |

Pension Funds

The California Public Employees' Retirement System (CalPERS) manages pension and health benefits for California's public employees and retirees and their families. As of December 2017, CalPERS had \$326.4 billion dollars in assets under management.

"CalPERS plans to monitor companies' progress on board diversity and enter into engagements on a case-by-case basis. The organization has made clear its willingness to withhold votes from directors should companies' action prove inadequate."

"Simply put, board diversity is good for business. It is essential in today's global economy that boards avoid 'group think' and ensure there is the breadth of experience, skills, and knowledge necessary to meet complex business needs."¹

—ANNE SIMPSON, INVESTMENT DIRECTOR, SUSTAINABILITY, CalPERS

"With each qualified director nomination recommendation, the board should consider the issue of competence, independence, [and] continuing director tenure, as well as board diversity, and take steps as necessary to ensure that the board maintains open—

¹ California Public Employees' Retirement System, "CalPERS Expands Engagement for Greater Diversity on Corporate Boards to More than 500 U.S. Companies", (press release, California Public Employee Retirement System, Sacramento, CA, August 22, 2017).

ness to new ideas, a willingness to re-examine the status quo, and [remains] able to exercise judgment in the best interests of the corporation, free of any external influence that may attempt to be or may appear to be exerted upon them.”²

“There should be routine discussions as part of a rigorous evaluation and succession planning process surrounding director refreshment to ensure boards maintain the necessary mix of skills, diversity, and experience to meet strategic objectives.”³

“The board should facilitate a process that ensures a thorough understanding of the diverse characteristics necessary to effectively oversee management’s execution of a long-term business strategy. Board diversity should be thought of in terms of skill sets, gender, age, nationality, race, sexual orientation, gender identity, and historically under-represented groups. Consideration should go beyond the traditional notion of diversity to include a more broad range of experience, thoughts, perspectives, and competencies to help enable effective board leadership. A robust process for how diversity is considered when assessing board talent and diversity should be adequately disclosed.”⁴

—CalPERS

The California State Teachers’ Retirement System (CalSTRS) provides disability, retirement, and survivor benefits for California’s educators and their families. As of May 31, 2018, CalSTRS managed a portfolio worth \$224.9 billion.

“CalSTRS has a long-standing diversity initiative in place because we believe diversity is not simply a social issue. It is about mitigating risk, improving accountability, and enhancing the long-term sustainable value and company performance for shareholders. And, to be effective in impacting corporate performance, research shows that diversity starts at the board level and permeates throughout leadership and staff positions.”⁵

—ANNE SHEEHAN, DIRECTOR OF CORPORATE GOVERNANCE, CalSTRS

“The board should be composed of diverse individuals with the skills, education, experiences, expertise and personal qualities that are appropriate to the company’s current and long-term business needs.”⁶

² California Public Employees’ Retirement System (CalPERS), *Global Governance Principles* (Sacramento, CA: CalPERS, 2016), p. 16.

³ Ibid.

⁴ Ibid, p. 15.

⁵ Krista Noonan, “CalSTRS Enhances Corporate Governance Principles with Expanded Board of Directors Accountability Standards” (press release, California State Teachers’ Retirement System, West Sacramento, CA, July 21, 2016).

⁶ California State Teachers’ Retirement System, *California State Teachers’ Retirement System Corporate Governance Principles* (West Sacramento, CA: CalSTRS, 2017), p. 5.

“Board diversity should be considered by the board or the nominating committee. The director nomination process and policy should consider a diverse mix of skills, background, experience, age, gender, sexual orientation and identification, cultural, and ethnic composition that are most appropriate to the company’s long-term business needs. The board should disclose the policies or procedures used to ensure board diversity. Diversity goals should include cultural diversity in addition to gender and/or race diversity. CalSTRS will hold members of the board’s nominating and governance committee and if necessary the entire board accountable if, after engagement about the lack of board diversity, sufficient progress has not been made in this regard.”⁷

–CalSTRS

Coalition of Pension Fund Fiduciaries

“As large institutional investors, we have a real interest in electing a slate of board nominees who are well-positioned to help carry out a company’s business strategy and meet our long-term investment needs. We believe better disclosure about the board’s skills, experiences, gender, race, and ethnic diversity can help us as investors determine whether the board has the appropriate mix to manage risk and avoid groupthink. For these reasons, we urge the Commission to initiate a rulemaking process to require better disclosure.”⁸

–CalPERS, CalSTRS, CONNECTICUT RETIREMENT PLANS AND TRUST FUND, ILLINOIS STATE BOARD OF INVESTMENT, NEW YORK CITY COMPTROLLER, NEW YORK STATE COMMON RETIREMENT FUND, NORTH CAROLINA DEPARTMENT OF STATE TREASURER, OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEMS, AND THE WASHINGTON STATE INVESTMENT BOARD

Council of Institutional Investors is a nonprofit association of pension funds, other employee benefit funds, endowments, and foundations, with combined assets that exceed \$3.5 trillion.

“[The benefits of diversity have] become consensus among investors. . . . The board just functions differently. And you hear it from folks in the boardroom.”⁹

–KEN BERTSCH, EXECUTIVE DIRECTOR, COUNCIL OF INSTITUTIONAL INVESTORS

An independent Los Angeles County agency, the **Los Angeles County Employees Retirement Association (LACERA)** administers and manages the retirement fund for the employees of Los Angeles County and outside districts. In 2018, LACERA’s net assets were worth \$55.8 billion.

⁷ California State Teachers’ Retirement System, *California State Teachers’ Retirement System Corporate Governance Principles* (West Sacramento, CA: CalSTRS, 2017), p. 6.

⁸ Connecticut Retirement Plans and Trust Fund, California State Teachers’ Retirement System, New York City Comptroller, Illinois State Board of Investment, Ohio Public Employees Retirement Systems, New York State Common Retirement Fund, North Carolina Department of State Treasurer, California Public Employees’ Retirement System, et al., “*Petition for Amendment of Proxy Rule Regarding Board Nominee Disclosure – Chart/Matrix Approach*,” March 31, 2015.

⁹ Phoebe Wall Howard, “*Women leaders help cut down corporate fraud, investors say*,” *Detroit Free Press*, December 16, 2017.

“Boards should give consideration to ensuring that directors collectively possess a diverse set of relevant skills, competencies, and attributes to exercise oversight on investors’ behalf, including expertise, geographic familiarity, and professional backgrounds relevant to the company’s strategic objectives.”¹⁰

“The board should establish and disclose policies and processes for ensuring that it identifies and nominates suitable directors from a wide pool of candidates relevant to its business strategy, including, but not limited to, diverse gender, racial, and ethnic backgrounds. A diverse and inclusive board is better positioned to effectively deliberate and oversee business strategy in investors’ interests.”¹¹

—LACERA

The New York City Comptroller is the custodian and investment advisor to the boards of the five New York City public pension funds. The funds collectively amount to \$193.8 million as of April 2018.

“It’s time to raise our voice and demand change at some of the biggest companies in the world. Diversity isn’t a box to be checked—it’s a strategy for economic success. Today, we’re doubling down and demanding companies embrace accountability and transparency.”¹²

—SCOTT M. STRINGER, NEW YORK CITY COMPTROLLER

The statutory and fiduciary mandate of the State Board of Administration (SBA) of Florida is to invest, manage, and safeguard assets of the Florida Retirement System Trust Fund; as of June 30, 2017, the SBA had \$9.97 billion of assets under management.

“At the board level, we consider the need for diversity in gender, race, experience, and other appropriate categories. In cases where a proxy contest has resulted in more nominees than available board seats, it’s important to assess each candidate’s relative expertise and experience, as well as differences in strategic vision if applicable.”¹³

“Corporate diversity—SBA will generally support requests for additional information and disclosures at companies where diversity across members of the board, management, and employees lags those of peers or the population. Board members, manage-

¹⁰ Los Angeles County Employees Retirement Association (LACERA), *Los Angeles County Employees Retirement Association LACERA Corporate Governance Principles* (Pasadena, CA: LACERA, 2018), p. 5.

¹¹ Ibid.

¹² Office of the New York City Comptroller, “Comptroller Stringer, NYC Pension Funds Launch National Boardroom Accountability Project Campaign—Version 2.0” (press release, Office of the New York City Comptroller, New York, NY, September 8, 2017).

¹³ State Board of Administration of Florida, *2017 Corporate Governance Principles Proxy Voting Guidelines* (Tallahassee, FL: SBA of Florida, 2017), p. 7.

ment, and employees with differing backgrounds, experiences, and knowledge will enhance corporate performance.”¹⁴

—SBA OF FLORIDA

The UAW Retiree Medical Benefits Trust provides health care benefits for UAW members who are retired from Chrysler, Ford, and General Motors and their eligible dependents. The Trust had nearly \$57 billion of assets under management at the beginning of 2017.

“The Concept Release seeks comment on which specific sustainability and public policy subjects are important to investors. Information on human capital management, corporate political spending, and board and workforce diversity is important to the [UAW Retiree Medical Benefits] Trust and would improve investors’ decisions regarding investment and voting.”¹⁵

“Since 2011, the [UAW Retiree Medical Benefits] Trust has actively engaged with its portfolio companies at both the state and national levels to explore ways of increasing gender and racial/ethnic diversity on corporate boards because board diversity is associated with better firm performance. By bringing broader perspectives and more varied skill sets, board diversity is shown to strengthen a [company’s] financial performance and improve the quality of board decision making.”¹⁶

“The [UAW Retiree Medical Benefits] Trust has contributed to the election of 79 diverse candidates to corporate boards through its own statewide shareholder engagements and through the coordinated efforts of the national [Thirty Percent] Coalition. These efforts reflect investors’ views that diversity is an important factor in driving long-term shareholder value.”¹⁷

“The [UAW Retiree Medical Benefits] Trust also supports the Diversity Governance Indicators (‘DGI’) initiative, spearheaded by attorney Cyrus Mehri. This initiative promotes disclosure of common metrics for companies of greater than 5,000 employees as to ensuring diversity in the board and in the workplace. DGI also calls on boards of directors to support diverse candidate pools in the search process and to appoint board level committees on human capital management that would include diversity issues.”¹⁸

—UAW RETIREE MEDICAL BENEFITS TRUST

¹⁴ Ibid, p. 20.

¹⁵ Letter from Meredith Miller, Chief Corporate Governance Officer of the UAW Retiree Medical Benefits Trust, to the Secretary of the US Securities and Exchange Commission in response to [Business and Financial Disclosure Required by Regulation S-K \(File No. S7-06-16\)](#), July 15, 2016, p. 4.

¹⁶ Ibid, p. 6.

¹⁷ Ibid.

¹⁸ Ibid.

The Washington State Investment Board (WSIB) directs the investments for 17 retirement plans for firefighters, judges, law enforcement officers, school employees, teachers, and public employees in Washington State. As of March 31, 2018, the fund had a total of \$129.1 billion assets under management.

“We look for boards with talented directors who have a diversity of backgrounds and experience that will enable them to understand the issues particular to the company where they serve, and who collectively have the ability to review and judge the critical issues they decide on behalf of shareholders.”¹⁹

“Nominating committee charters, or [their] equivalent, ought to reflect that boards should be diverse, including, in addition to background and experience, such considerations as age, race, gender, ethnicity, and culture. Where we believe this diversified talent is missing from the board, we vote against directors as appropriate to address the issue.”²⁰

“The WSIB supports a diverse board. The WSIB believes a diverse board has benefits that can enhance corporate financial performance, particularly in today’s global market place. Nominating committee charters, or [their] equivalent, ought to reflect that boards should be diverse, including such considerations as background, experience, age, race, gender, ethnicity, and culture. Many shareholders believe that the best indicator of a company’s commitment to workplace diversity is reflected by the composition of its board.”²¹

“The WSIB evaluates proposals, asking a company to increase diversity on its board on a case-by-case basis, taking into account:

- The degree of existing diversity on the company’s board and among its executive officers
- The level of diversity that exists at the company’s industry peers
- The company’s established process for addressing diversity
- The independence of the company’s nominating committee
- The company’s use of an outside search firm to identify potential director nominees
- Presence of recent controversies, fines, or litigation regarding equal employment practices
- The scope of the request, including whether the proposal contains an overly prescriptive request to amend nominating committee charter language”²²

—WSIB

¹⁹ Washington State Investment Board, *Global Proxy Voting Policy* (Olympia, WA: Washington State Investment Board, 2017), p. 4.

²⁰ Ibid.

²¹ Ibid, p. 20.

²² Ibid.

Institutional Shareholders

BlackRock is a global investment management firm and the world's largest asset manager with \$6.3 trillion in assets under management as of December 2017.

"Furthermore, we expect boards to be [composed] of a diverse selection of individuals who bring their personal and professional experiences to bear in order to create a constructive debate of competing views and opinions in the boardroom. In addition to other elements of diversity, we would normally expect to see at least two women directors on every board."²³

"We encourage boards to disclose their views on . . . the consideration given to board diversity, including, but not limited to, diversity of gender, race, age, experience, geography, and skills, and other factors taken into account in the nomination process."²⁴

"To the extent that we believe that a company has not adequately accounted for diversity in its board composition, we may vote against the nominating/governance committee members."²⁵

"Board diversity, particularly in terms of gender, is important from a sustainable investment perspective given that diverse groups have been demonstrated to make better decisions."²⁶

"It's important to point out that we are not trying to micromanage the nominating process or to tell companies what to do—we are attempting to build mutual understanding on these issues. Ultimately, we seek to grasp the company's philosophy, policies, and performance on gender diversity at the board."²⁷

"We explained that, from our perspective, the end-to-end process of meeting with a portfolio company requires significant preparation, time, and resource allocation. We shared that, for meetings to be mutually beneficial, we expect companies to come prepared, particularly in instances where the topics of conversation have been ongoing over the course of several years. During a subsequent roundtable which focused on board diversity, we discussed boards limiting their board diversity initiatives to nominating only one woman. Ideally, we believe boards should commit to adding at least two women directors. Views were shared on how investors can continue to highlight to these boards their belief that diverse groups deliver better decisions and that,

²³ BlackRock, *Proxy voting guidelines for U.S. securities* (New York, NY: BlackRock, 2018), p. 4.

²⁴ Ibid.

²⁵ Ibid, p. 5.

²⁶ Trevor Hunnicutt, "BlackRock supports effort to boost number of women board members," Reuters, July 13, 2017.

²⁷ BlackRock, *Investment Stewardship Report: Americas Q2 2017* (New York, NY: BlackRock, 2017), p. 3.

ultimately, the corporate board is a decision-making body that act as fiduciaries on behalf of investors and board diversity is a performance imperative.”²⁸

—BLACKROCK

“In those markets that haven’t made much progress on board diversity, particularly gender diversity, we will be engaging. If we have engaged in prior years, we will be voting against the reelection of members of the governance committee unless there’s a very credible explanation for the lack of progress.”²⁹

“We believe that a lack of diversity on the board undermines its ability to make effective strategic decisions. That, in turn, inhibits the company’s capacity for long-term growth.”³⁰

“Irrespective of a company’s industry, location or size, we believe that a lack of diversity on the board undermines its ability to make effective strategic decisions. . . .”³¹

—MICHELLE EDKINS, MANAGING DIRECTOR AND GLOBAL HEAD, BLACKROCK’S INVESTMENT STEWARDSHIP

Capital Group is a financial services company in America with \$1.7 trillion in assets under management.

“As fiduciaries, our focus on long-term shareholder value obliges us to look at ESG issues as part of our overall mission: improving people’s lives through successful investing. Put simply, we believe a company’s ability to align its business strategy with evolving societal expectations is essential to long-term value creation. As a result, we analyze ESG issues in an integrated way—alongside other financial and business indicators—as part of our core investment process.”³²

—CAPITAL GROUP

Fidelity Investments is a multinational financial services corporation, with \$2.4 trillion in assets under management as of December 2017.

“In certain cases, however, Fidelity may support shareholder proposals that request additional disclosures from companies regarding environmental or social issues, where it believes that the proposed disclosures could provide meaningful information to the investment management process without unduly burdening the company. For example, Fidelity may support shareholder proposals calling for reports on sustain-

²⁸ Ibid, p. 9.

²⁹ Mara Lemos Stein, “BlackRock’s 2018 Focus: Board Diversity, Climate Risk,” *The Wall Street Journal*, December 14, 2017.

³⁰ Sarah Krouse, “BlackRock: Companies Should Have at Least Two Female Directors,” *The Wall Street Journal*, February 2, 2018.

³¹ Emily Chasan, “BlackRock Asks Companies to Explain Dearth of Women on Boards,” Bloomberg, February 2, 2018.

³² Capital Group, www.capitalgroup.com, Information on Capital Group’s Policies and Disclosures, “Capital Group’s Environmental, Social and Governance Principles and Practices.”

ability, renewable energy, and environmental impact issues. Fidelity also may support proposals on issues such as equal employment, and board and workforce diversity.”³³

—FIDELITY INVESTMENTS

State Street Global Advisors (SSGA) is one of the largest asset managers, with nearly \$2.8 trillion in assets under management as of December 31, 2017.

“SSGA believes good governance is a function of sound board quality, which starts with strong, effective, independent board leadership. . . . SSGA believes board diversity enhances board quality as it brings together directors with different skills, backgrounds, and expertise. . . . Our preferred approach is to drive greater board diversity through an active dialogue and engagement with company and board leadership. In the event that companies fail to take action to increase the number of women on their boards, despite our best efforts to actively engage with them, we will use our proxy voting power to effect change—voting against the chair of the board’s nominating and/or governance committee if necessary.”³⁴

—SSGA

“Fearless Girl³⁵ was never a statement of accomplishment. Her purpose is aspirational and inspirational for us and all others. And if anyone thinks that we are going to retreat on the issue of gender diversity in the corporate boardroom . . . or stop using our voice and our vote to effect change outside our own organization . . . they are sorely mistaken. That is not going to happen.”³⁶

“Of course, anyone who has ever served on a board knows the advantages of working with board members who bring different perspectives and backgrounds. In particular, gender-diverse boards tend to pay more attention to risk management . . . and are less inclined toward cronyism and groupthink.”³⁷

³³ Fidelity Investments, *Fidelity Funds’ Proxy Voting Guidelines* (Boston, MA: Fidelity Investments, 2018), p. 8.

³⁴ State Street Global Advisors, *State Street Global Advisors’ Guidance on Enhancing Gender Diversity on Boards* (Boston, MA: State Street Global Advisors, 2017), p. 2.

³⁵ On September 27, 2018, State Street Global Advisors announced the latest impact figures from its Fearless Girl campaign. The campaign highlights the institutional investor’s commitment to encouraging gender diversity in the companies in which it invests. Since the launch of the campaign in 2017, more than 300 companies have responded to the asset manager’s call to add a female director to their board’s ranks. Twenty-eight additional companies have committed to adding a woman to their board. State Street voted against 512 companies for failing to make progress toward greater gender diversity at the board level in the 2017 proxy season. Source: State Street Global Advisors press release, “*State Street Global Advisors Reports Fearless Girl’s Impact: More than 300 Companies Have Added Female Directors*,” Sept. 27, 2018.

³⁶ Ronald P. O’Hanley, “*Being Fearless about the Future: Expanding the Call for Board Gender Diversity* (remarks delivered at the Women’s Forum of New York’s 2017 Breakfast of Corporate Champions, New York, NY, November 14, 2017), p. 1.

³⁷ *Ibid*, p. 2.

“In a more complex, innovation-driven environment, embracing a diversity of thinking, competencies, and backgrounds is a business imperative. Companies that want to compete can’t afford to neglect half the population, especially as women continue to outpace men when it comes to higher education and the skills that are increasingly important to the industries of the future.”³⁸

“The talent is there. We simply need to be bolder, and yes: fearless. Fearless in acknowledging our own biases, conscious or otherwise. Fearless in our commitment to get to parity on corporate boards well within this generation. Fearless in looking beyond the usual corporate pools of candidates to find individuals who may not look like us, act like us, or have the same experience.”³⁹

“If someone could convince us that the absence of diversity or gender diversity is not a problem, we’re leaving that open. Will they? I doubt it.”⁴⁰

—RONALD O’HANLEY, PRESIDENT AND CHIEF EXECUTIVE OFFICER, SSGA

TIAA (formerly TIAA-CREF) is the leading provider of financial services in the academic, cultural, governmental, medical, and research fields and a Fortune 100 financial services organization. As of December 31, 2017, TIAA has \$1 trillion in combined assets under management.

“The board should be composed of individuals who can contribute expertise and judgment, based on their professional qualifications and business experience. The board should reflect a diversity of background and experience.”⁴¹

“Promoting diversity and maintaining inclusive workplace standards can help companies improve decision making, attract and retain a talented and diverse workforce, and compete more effectively. Boards and management should strive to create a culture of inclusiveness and acceptance of differences at all levels of the corporation. Companies should be aware of any potential failures to provide equal opportunities and develop policies and initiatives to address any concerns.”⁴²

“Boards of directors can also benefit from a diversity of perspective and demographics. Though we do not believe in quotas, we believe that nominating committees should develop appropriate diversity criteria for director searches to ensure that candidates are drawn from the broadest possible pool of talent. Companies should

³⁸ Ibid, p. 3.

³⁹ Ibid.

⁴⁰ Sarah Krouse and Joann S. Lublin, “State Street to Start Voting Against Companies That Don’t Have Women Directors,” *The Wall Street Journal*, March 7, 2017.

⁴¹ TIAA-CREF, *TIAA-CREF Policy Statement on Corporate Governance* (New York, NY: TIAA-CREF, 2012), p. 10.

⁴² Ibid, p. 16.

disclose how diversity policies support corporate efforts to strengthen the effectiveness of their boards.”⁴³

“TIAA-CREF will generally support reasonable shareholder resolutions seeking disclosure or reports relating to a company’s workforce and board diversity policies and practices.”⁴⁴

–TIAA

T. Rowe Price Group is an American global asset management firm, which is publicly owned and has assets under management of more than \$900 billion at the end of 2017.

“Board diversity is an important issue for a growing number of investors, including T. Rowe Price. At a high level, the composition of the average company board does not reflect the diversity of the stakeholders these companies represent—their employees, customers, suppliers, communities, or investors. A substantial body of academic evidence supports our own observation as investors: that boards lacking in diversity represent a suboptimal composition and a potential risk to the company’s competitiveness over time.”⁴⁵

“We recognize diversity can be defined across a number of dimensions. However, if a board is to be considered meaningfully diverse, in our view some diversity across gender, ethnic, or nationality lines must be present. At this time, we have not changed our voting guidelines for director elections for companies without any outward evidence of board diversity. However, these situations are a focus of our engagement program, and may in the future form the basis of new voting guidelines.”⁴⁶

–T. ROWE PRICE GROUP

The Vanguard Group is an investment management firm with about \$5.1 trillion in global assets under management as of January 31, 2018.

“When the board contributes the right mix of skill, expertise, thought, tenure, and personal characteristics, sustainable economic value becomes much easier to achieve. A thoughtfully composed, diverse board more objectively oversees how management navigates challenges and opportunities critical to shareholders’ interests. Gender diversity is one element of board composition that we will continue to focus on over the coming years. We expect boards to focus on it as well, and their demonstration of

⁴³ Ibid.

⁴⁴ Ibid, p. 20.

⁴⁵ T. Rowe Price Group, *Proxy Voting Guidelines* (Baltimore, MD: T. Rowe Price Group, 2018), p. 3.

⁴⁶ Ibid, p. 4.

meaningful progress over time will inform our engagement and voting going forward.”⁴⁷

—F. WILLIAM MCNABB III, CHAIR AND CEO, THE VANGUARD GROUP

“We also believe that diversity of thought, background, and experience, as well as of personal characteristics (such as gender, race, and age), meaningfully contributes to the board’s ability to serve as effective, engaged stewards of shareholders’ interests. If a company has a well-composed, high-functioning board, good results are more likely to follow.”⁴⁸

—THE VANGUARD GROUP

Proxy Advisory Firms

Glass Lewis is an influential global proxy advisor. The organization maintains approximately 37 percent of the market share for proxy advisory services and works with institutional investors that collectively manage \$20 trillion in 100 countries.

“In 2018, we will not make voting recommendations solely on the basis of the diversity of the board; rather, it will be one of many considerations we make when evaluating companies’ oversight structures. Beginning in 2019, however, Glass Lewis will generally recommend voting against the nominating committee chair of a board that has no female members. Depending on other factors, including the size of the company, the industry in which the company operates, and the governance profile of the company, we may extend this recommendation to vote against other nominating committee members. Also, when making these voting recommendations, we will carefully review a company’s disclosure of its diversity considerations and may refrain from recommending shareholders vote against directors of companies outside the Russell 3000 index, or when boards have provided a sufficient rationale for not having any female board members, or have disclosed a plan to address the lack of diversity on the board.”⁴⁹

“Consistent with Glass Lewis’ philosophy that boards should have diverse backgrounds and members with a breadth and depth of relevant experience, we believe that nominating and governance committees should consider diversity when making director nominations within the context of each specific company and its industry. In our view, shareholders are best served when boards make an effort to ensure a constituency that is not only reasonably diverse on the basis of age, race, gender, and

⁴⁷ F. William McNabb III, “An Open Letter to Directors of Public Companies Worldwide,” August 31, 2017, p. 1.

⁴⁸ The Vanguard Group, *Investment Stewardship Pillars*.

⁴⁹ Glass Lewis, *2018 Proxy Paper Guidelines: An Overview of the Glass Lewis Approach to Proxy Advice* (San Francisco, CA: Glass Lewis, 2017), p. 43.

ethnicity, but also on the basis of geographic knowledge, industry experience, board tenure, and culture.”⁵⁰

“Glass Lewis recognizes the importance of ensuring that the board is [composed] of directors who have a diversity of skills, thought, and experience, as such diversity benefits companies by providing a broad range of perspectives and insights. As with previous years, Glass Lewis will continue to closely review the composition of the board and may note as a concern instances where we believe the board lacks representation of diverse director candidates, including those boards which have no female directors.”⁵¹

—GLASS LEWIS

Institutional Shareholder Services (ISS) is a proxy advisory firm, and with more than 61 percent of the business, it is the largest. The global company covers 115 countries, with clients that represent more than \$3.7 trillion shares.

“General Recommendation: Generally, vote for requests for reports on a company’s efforts to diversify the board, unless:

- The gender and racial minority representation of the company’s board is reasonably inclusive in relation to companies of similar size and business; and
- The board already reports on its nominating procedures and gender and racial minority initiatives on the board and within the company.”⁵²

“Vote case-by-case on proposals asking a company to increase the gender and racial minority representation on its board, taking into account:

- The degree of existing gender and racial minority diversity on the company’s board and among its executive officers;
- The level of gender and racial minority representation that exists at the company’s industry peers;
- The company’s established process for addressing gender and racial minority board representation;
- Whether the proposal includes an overly prescriptive request to amend nominating committee charter language;
- The independence of the company’s nominating committee;
- Whether the company uses an outside search firm to identify potential director nominees; and

⁵⁰ Ibid, p. 13.

⁵¹ Ibid, p. 22.

⁵² Institutional Shareholder Services, *United States Proxy Voting Guidelines: Benchmark Policy Recommendations* (New York, NY: ISS, 2018), p. 58.

- Whether the company has had recent controversies, fines, or litigation regarding equal employment practices.”⁵³

“General Recommendation: Generally, vote for proposals requesting a company disclose its diversity policies or initiatives, or proposals requesting disclosure of a company’s comprehensive workforce diversity data, including requests for EEO-1 data, unless:

- The company publicly discloses equal opportunity policies and initiatives in a comprehensive manner;
- The company already publicly discloses comprehensive workforce diversity data; and
- The company has no recent significant EEO-related violations or litigation.

Generally, vote against proposals seeking information on the diversity efforts of suppliers and service providers. Such requests may pose a significant burden on the company.”⁵⁴

–ISS

⁵³ Institutional Shareholder Services, *United States Proxy Voting Guidelines: Benchmark Policy Recommendations* (New York, NY: ISS, 2018), p. 58.

⁵⁴ Ibid, p. 59.



NACD, in collaboration with Deloitte, has created NACD NXT, a multiyear initiative focused on helping directors and boards understand how to leverage the power of diversity and inclusion to create long-term value.

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