

Voting For Diversity

A Survey of Investors



How do investors use their proxy votes to promote greater board diversity?



BOSTON COMMON

ASSET MANAGEMENT

A survey conducted by Boston Common Asset Management in the Spring of 2019 examined proxy voting and engagement policies as they relate to diversity among institutional investors.

The survey was designed to reveal the extent to which institutional investors considered gender, racial and ethnic diversity when voting their proxies. **Here's what we found:**

For Investors, proper oversight includes diversity

Investors are paying greater attention than ever to boardroom diversity. Growing numbers of large, institutional investors are publicly pressing companies to bring more gender and racial/ethnic diversity to their boards—believing that directors with diverse backgrounds help discourage groupthink and mitigate against excessive risk-taking.¹ Public companies are responding, though change has been slow. In March 2019, Boston Common, in collaboration with the Thirty Percent Coalition, surveyed institutional investors to better understand how they are using proxy voting to demand diversity in the boardroom. The survey was distributed to investors via the Thirty Percent Coalition, the USSIF, and the UNPRI.

In total, we received 47 responses, with 42 identifying as investors, concerning their engagement on the issue of boardroom diversity and their current voting practices.

Survey says...

Our survey attracted responses from a wide variety of investors. The majority (54%) were investment managers, but almost 40% could be classified as 'asset owners' either pension funds, foundations or 'other non-profits' with investable assets.

Increasingly, institutional investors that have been publicly calling for greater diversity at the board level, have codified their requests into their voting policy. Over 75% of respondents had a public proxy voting policy which demonstrates that a majority of these institutions have created a formal framework for casting their votes.² Further, the subset of respondents who are members of the Thirty Percent Coalition are even more likely to do so with 95% of them having a public policy.

When asked: "What level of diversity would trigger a 'no' vote under your proxy voting policy?" Almost half of the respondents (43%) said they would vote against boards that were less than 30% diverse. However, 46% of respondents did not have a percentage threshold which would trigger a 'no' vote.

Typical responses included:

"When a board has failed to make progress towards board diversity, including but not limited to gender" - State Pension Plan

"Yes. We seek diversity in terms of race, ethnicity, gender, experience, and expertise." ~ Public Pension Plan

"We don't use an absolute number, it is case by case" ~ anonymous respondent

At a Glance

01  Almost half (43%) would vote against boards which lacked at least 30% diversity, consistent with the Thirty Percent Coalition's goal.

02  The majority (60%) consider gender, race and ethnicity (among other aspects) in evaluating the diversity on the board.

03  Gender Diversity is the most common single issue included among demographic considerations.

04  When investors find diversity insufficient, the most common response is to vote against the nominating and governance committee (43%).

¹Kramer, Vicky Phd. Et al, 'Critical Mass on Corporate Boards' Wellesley Centers for Women 2006 <https://www.wcwonline.org/Publications-by-title/critical-mass-on-corporate-boards-why-three-or-more-women-enhance-governance-executive-summary>; Yang, Ya-wen, 'More Diverse Corporate Boards Leads to less Risk Taking' Entrepreneur August 29, 2014 <https://www.entrepreneur.com/article/236929>

²The Thirty percent Coalition will maintain a public google doc with links to all those policies as a resource for all investors.

What's Next?

Dismay from investors and policy-makers with the pace of progress has resulted in legislative mandates in some states requiring companies to include women on the board. This mimics mandates already adopted by some Western European countries. In 2018, California became the first state to mandate women on boards, requiring companies based there to have at least one female board director by the end of 2019, and at least two by 2021.³ New York State and New Jersey are both considering similar legislation. Though business groups are mostly opposed, no lawsuits have been launched in California to fight the legislation, perhaps because groups like the California Chamber of Commerce are fearful of the public backlash if they are seen to be fighting against the advancement of gender equity. These legislative requirements may succeed in accelerating a trend that is already underway, and reduce the estimated 40 years it will take to reach gender parity on boards.⁴

The Thirty Percent Coalition is tackling this issue via a number of initiatives, including our recently launched boardroom diversity campaign focused on women of color. The Coalition has sent letters to the CEO and Nominating Committee Chair of S&P1500 companies inviting executives to mixers to meet potential directors drawn from organization members that represent Latina, Asian and African American directors.

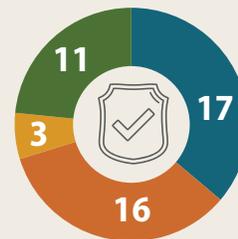
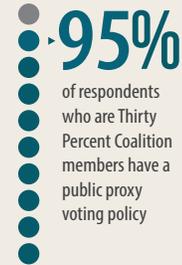
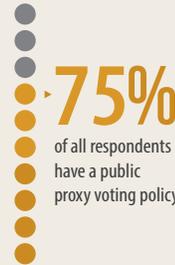
Beyond the Boardroom

Our survey focused on Board diversity, but that is only one factor in encouraging companies to develop diverse, inclusive policies and practices. By encouraging [gender and racial diversity practices](#) in the boardroom through proxy voting, investors have a specific, measurable way to hold companies accountable over the long term. But that isn't enough. Companies must incorporate diversity and inclusion practices in senior leadership and at all levels of the workforce. They have an opportunity and a responsibility to create a corporate culture of non-discrimination that intentionally includes diverse employees. Companies should also examine their products and services (think: predatory lending or unfair labor practices) that could exacerbate injustices and risk reputational harm. We recognize that Board diversity is one of the first, necessary steps along this path toward a truly diverse and inclusive corporate workforce.

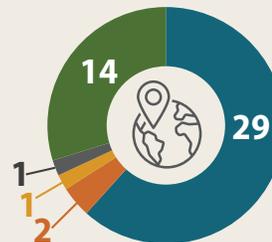


47/42

We received 47 responses, with 42 identifying as investors, concerning their engagement on boardroom diversity and current proxy voting practices.



- ▶ Asset Managers
- ▶ Asset Owners
- ▶ Service Providers
- ▶ Not Specified



- ▶ United States
- ▶ France
- ▶ Ireland
- ▶ New Zealand
- ▶ Not Specified



23%

Relied only on a gender screen, voting against boards that had no women.



2%

Looked specifically at race and/or ethnicity only—voting strictly against racially homogenous boards.

³California becomes First State to Mandate Female Board Directors, The Wall Street Journal September 30th, 2018 https://www.wsj.com/articles/california-becomes-first-state-to-mandate-female-board-directors-1538341932?mod=article_inline

⁴Government Accountability Office, Corporate Boards: Strategies to address Representation of Women Include Federal Disclosure Requirements Jan 4, 2016 <https://www.gao.gov/products/GAO-16-30>

How are investors exercising their votes?

Gender diversity gaining momentum

The majority (60%) consider gender, race, and ethnicity as aspects of diversity in evaluating and reviewing the composition of the board. Interestingly, 23% of the respondents relied only on a gender screen—voting against boards that had no women. Of the respondents, 2% considered race and/or ethnicity only—voting strictly against racially homogenous boards.

Whom to vote against?

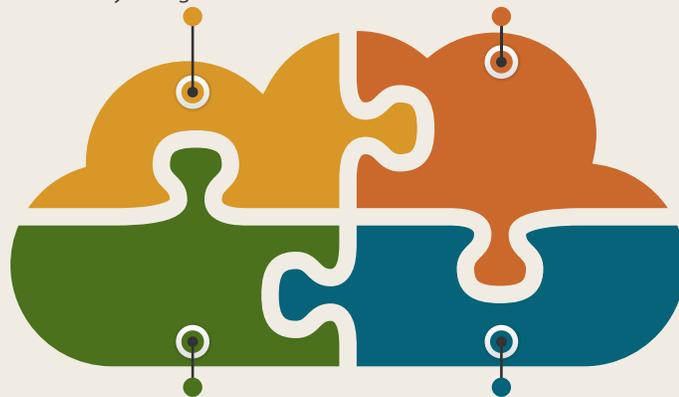
In cases where diversity was considered insufficient, we also asked how the investor implemented this in their voting. A quarter of respondents chose to signal their dissatisfaction with inadequate diversity at the board level by voting against the entire board. The largest percentage (43%) voted against the nominating committee, while 23% of the investors voted against the nominating committee chair. Of the respondents, 28% did not use votes against to signal their concerns about board diversity.

GENDER DIVERSITY

The majority (60%) consider gender, race, and ethnicity as aspects of diversity. Some relied only on a gender screen.

WHEN TO VOTE AGAINST?

Almost half of respondents have a policy to vote against boards that are less than 30% diverse.



WHOM TO VOTE AGAINST?

25% vote against the entire board. 43% vote against the nominating committee. 28% do not signal their concerns with 'against' votes.

SHAREHOLDER PROPOSALS

More than 80% of respondents would vote in favor of shareholder proposals requesting disclosure on board diversity.

What about Shareholder proposals?

Shareholder proposals that request companies to disclose steps taken to create greater diversity on the Board have been on the rise in recent years.⁵ More than 80% of the respondents affirmed that they would vote in favor of such proposals though 16% claimed that they consider them on a case-by-case basis.

ABOUT THE THIRTY PERCENT COALITION

Founded in 2011, the [Thirty Percent Coalition](#) is a pioneer in promoting diversity in the corporate boardroom. The mission is to advocate for gender diversity, including women of color, on public and private boards. Board diversity has become one of the leading measurements which shows a compelling correlation with improved shareholder value and company performance. The Coalition provides a national forum where its members develop strategies to influence companies to increase gender diversity in senior leadership and boardrooms. Members find value in a unique industry-wide collaboration. Membership includes public companies, private equity, institutional investors, state treasurers, professional services firms and advocacy groups working together for the first time. In 2019, members represent over \$5 trillion in assets under stewardship. As an example of the Coalition's impact, more than 250 companies have appointed a woman to their boards for the first time, following its "Adopt a Company" campaign.

ABOUT BOSTON COMMON ASSET MANAGEMENT

[Boston Common Asset Management](#) is dedicated to the pursuit of financial return and social change. Diverse, women-led, and majority employee-owned, we bring experience, intentionality, integrity, and judgment to these tasks. Women comprise 60% of our Board of Directors and Senior Management, and over 55% of our integrated Investment Team and total staff. Racial diversity accounts for over 35% of our integrated Investment team, 30% of total staff, and 20% of Senior Management. Boston Common's mission reflects our commitment to our clients, our team, and to the universal commons. Working within the arena of investments, we commit to being responsible stewards of our clients' assets, seeking competitive financial returns and meaningful social and environmental change. The author, Lisa Hayles is a Principal at Boston Common and serves on the Board of the Thirty Percent Coalition. Lisa leads shareowner engagement at Boston Common on diversity and inclusion issues, and works with institutional clients.

⁵Martinez, Angelo, 'Shedding Light on Diversity Based Shareholder Proposals' Harvard Law School Forum on Corporate Governance and Financial Regulation. Tuesday October 16, 2018 <https://corpgov.law.harvard.edu/2018/10/16/shedding-light-on-diversity-based-shareholder-proposals/>