

Corporate Board Diversity Update

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Corporate Board Diversity Matters to us an Investor

- Studies continue to indicate: Greater board diversity can lead to lower volatility and better performance.¹
 - Utilizing 6 diversity elements, including age, gender, and ethnicity, Bernile et al found diverse boards fostered more efficient risk-taking, invested more in R&D and had greater innovation output per dollar invested¹
 - Credit Suisse found excess returns of 3.5% per year between 2005-2015 for companies with at least one woman on the board².
- ESG Strategic Plan Objective: Enhance Total Fund Performance by Increasing Corporate Board Diversity

Corporate Board Diversity: Where we are

- Engaged 500+ US companies in the Russell 3000 index regarding lack of diversity on their boards

Diversity and Inclusion Engagement Score Card (504 companies) **as of 5/31/18**		
Tier 1	Added or in the process of adding a diverse director	93 Companies (18%)
Tier 2	Responded – Enhanced or in the process of enhancing diversity disclosure	155 Companies (31%)
Tier 3	Responded – Inadequate Response	7 Companies (1%)
Tier 4	No Response	249 Companies (50%)

- Adopted a Board Diversity & Inclusion voting enhancement to hold directors accountable at engaged companies that fail to improve diversity on their boards or diversity & inclusion disclosures
 - Withheld votes against 271 directors at 85 companies
 - Ran proxy solicitations at two D&I companies where diversity proposals were filed by other investors
 - ❖ Pilgrim's Pride – 15% support (78% controlling shareowner)
 - ❖ First Hawaiian – 25% (62% controlling shareowner)
 - ~150 Annual General Meetings (AGMs) at D&I companies are still to occur (June to December timeframe)
- Transferred ownership of the Diverse Director DataSource (3D) to Equilar's Diversity Network
 - Over 200 public companies have signed up to search 3D
 - 14 candidates within 3D have been appointed to public company boards

Corporate Board Diversity: Potential Additional Steps

- Enhanced data analytics platforms are needed from data vendors in order to scale up globally (10,000+ companies). Staff will explore additional analytics platforms
- Mandatory diversity data disclosures are necessary in order to overcome the data integrity challenge, but improvements in analytics platforms may help bridge some of the gaps
- Enhance D&I KPI to capture all forms of diversity
 - From: All public companies in which CalPERS invests have a dimension of board diversity
 - To: All public companies in which CalPERS invests have a level of board diversity that **reflects each company's** business, workforce, customer base, and society in general
- Enhanced KPI will enable staff to file majority vote proposals and vote against directors (Board Chairs, Nominating & Governance Committee members, and long-tenured directors) at US companies that lack diversity as broadly-defined
- Collaborate with other asset owners and asset managers to explore developing market consensus around a strategy to improve corporate board diversity

APPENDIX

2018 Board Diversity & Inclusion Voting Enhancement

In 2018, as part of the CalPERS Diversity & Inclusion Initiative at engaged Russell 3000 companies, staff began holding directors accountable at companies that did not improve board diversity or that failed to improve diversity & inclusion disclosures

- Director Voting Strategy:
 - No response → **“Withhold” vote from Board Chair and entire Nominating/Governance Committee**
(CalPERS will support nominees with tenure of 1 year or less)
 - Inadequate response → **“Withhold” vote from entire Nominating/Governance Committee**
(CalPERS will support nominees with tenure of 1 year or less)
 - Consistent with CalPERS Governance & Sustainability Principles, staff will consider withholding from long-tenured directors (12 years or more) where there is insufficient disclosure of nominee independence
 - Votes based on independence could result in withhold votes from both board and key committee membership (applicable only for D&I Initiative)

2018 CalPERS Board Diversity & Inclusion Voting Enhancement

D&I Initiative – Russell 3000 Workflow

