The Fearless Girl Hasn't Backed Down, and Neither Will Investors

"Fearless Girl," created by artist Kristen Visbal. A plaque at the girl's feet states, "Know the power of women in leadership. SHE makes a difference."

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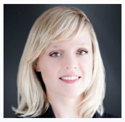

For International Women's Day 2017, State Street Global Advisors brought a new wave of investor activism to the forefront, placing its iconic Fearless Girl statue staring down Wall Street's Charging Bull. The statue represents the growing movement for gender parity in the financial sector, including more gender diversity in the boardroom. And while diversity is not a novel concept, it has gained new momentum from leading investors and money managers.

As part of State Street's Fearless Girl campaign (originally meant to highlight its Gender Diversity Index ETF), the money manager called on 3,500 companies in which it invests to increase the number of female board members. In the last year, the money manager sent letters to 787 companies with all-male boards in the U.S., U.K., and Australia, stating its intention to vote against the board members if a company did not adequately respond to State Street's diversity concerns. Ultimately, State Street voted against directors at more than 500 companies that failed to show progress on board diversity. But 152 of the companies it contacted responded more positively, recruiting at least one female director, and 34 companies have pledged to do so in the near term.

Expanding on its Fearless Girl campaign, State Street is adding new target companies this proxy season in Canada, Europe, and Japan, and is also calling for companies to provide more transparency and data on gender diversity throughout their management ranks. The money manager seeks to engage with companies on their diversity practices and policies and hopes to strengthen gender diversity throughout organizations, both in thought and backgrounds.

Among other benefits, investors and money managers like State Street make the case for diversity with a growing body of research that links a greater number of women in the boardroom with stronger long-term financial performance. Research also shows that all male boards suffer more corporate governance-related scandals than the average board.[1] In other words, investors have started to realize that corporate boards should have a breadth of views and knowledge in order to handle complex business problems, and diversity helps ward off the "echo chamber" or "group think" pitfalls.

While State Street's actions have garnered some much needed attention to the issue of diversity, they aren't the first stakeholders to champion the cause by leveraging their large financial position.

For instance, in 2009, California State Teachers' Retirement System ("CalSTRS") submitted shareholder proposals to eight companies seeking greater board diversity, which resulted in five companies changing their nomination committee charters and one company electing a women to its board. Later in 2011, CalSTRS and California Public Employees Retirement System ("CalPERS") joined 25 other large institutional investors, and other industry leaders, to form the Thirty Percent Coalition, an organization that engages companies to increase gender diversity in the boardroom. The Coalition launched a "Critical Mass Campaign" to secure a minimum of 30% multicultural women on every US-based publically listed company board of directors. Since then, the coalition has grown in size and success, with 90 members in 2017 heralding the engagement of 81 companies, with 24 companies appointing a woman to its board.

In line with this movement, many other large financial institutions are using their individual clout to push for diversity on boards.

• New York State Common Retirement Fund, another member

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Saxena White in the Community

The Fearless Girl is the New Member of the Board

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of the Thirty Percent Coalition, jumped to the frontlines of the movement by announcing in March that it intends to oppose the re-election of all directors at hundreds of companies with no female board members.

- CalPERS sent letters to 504 Russell 3000 Index companies that lacked gender diversity, calling on the companies to develop and disclose the companies' policy and implementation plans for board diversity.
- CalSTRS changed its board diversity policy in November so that it could oppose the re-election of directors at 27 companies with all-male boards.
- New York City Pension Funds announced that the comptroller sent letters to 151 companies "calling on them to publicly disclose the skills, race and gender of board members and to discuss their process for adding and replacing board members."
- Glass Lewis & Co. updated its proxy voting guidelines to state that "[b]eginning in 2019, Glass Lewis will generally recommend voting against the nominating committee chair (and, depending on certain other factors, other nominating committee members) if a board has no female members."
- Institutional Shareholder Services ("ISS") has not proposed a U.S. policy regarding board diversity but has proposed a Canadian policy which generally recommends voting "withhold" for the chair of the nominating (or similar) committee, or the chair of the board if no such committee has been established, if the board has not adopted a written gender diversity policy and has no female directors.

All in all, investor-led efforts for more diverse boards, which started nearly a decade ago, are the strongest they have been in years. Until recently, most institutional investors didn't specify the minimum number of diverse members they believe were needed on corporate boards. But in 2018, Blackrock, the world's largest money manager, made the groundbreaking announcement that companies in which it invests should have at least two female directors. In their proxy voting guidelines, the company stated that its portfolio companies should have diverse boards and that "we would normally expect to see at least two women directors on every board." BlackRock's global head of investment stewardship, Michelle Edkins, wrote to nearly 300 companies, each with less than two female board members, asking them to disclose their approach to boardroom and employee diversity and to establish a timeframe in which they will improve their diversity.

Likewise, other institutions have grown impatient with the lack of progress and have called upon companies to meet certain diversity targets. Standard Life Aberden Plc, one of Britain's largest fund management groups, said it will vote against boards where men hold more than 80% of seats. Legal & General Investment Management said it will vote against boards that are not at least 25% female. And Hermes, another large British investment management firm, said it believes boards should already have achieved at least 30% female representation.[2]

These recent efforts seem to be accelerating the movement toward diversity on corporate boards. According to research firm Equilar, in the first quarter of 2018, women accounted for 32% of all new board seats at Russell 3000 companies, which is up from 29.4% in 2017 and 21.4% in 2016. But women still only made-up approximately 16.5% of board members at the end of 2017, and at the current rate boards will not achieve gender parity until 2048.[3]

One reason for the slow response is the lack of boardroom turnover, with the average director serving for at least eight years. Despite investors' growing impatience and the recent movement toward reform, the benefits of today's labors may not fully materialize until the next decade. Over time, however, it is likely that more investors will pressure companies to increase board diversity, and the proportion of women in leadership positions will continue to grow. But, only when companies finally embrace the reality that diverse leadership leads to better outcomes will gender diversity become a natural strategy in corporate governance.

This is a change worth standing up for, just like the "Fearless Girl" who faces down the Wall Street bull. More than a year later, and long past the initial planned few weeks, the statue stands in the same spot as arrangements for her permanent home are made. Her popularity among New Yorkers, investors, and tourists has marked her place in history, establishing her as a beloved icon in the financial district. Both the city and investors have realized that SHE was meant to be an enduring figure on Wall Street.

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[1] Vanessa Fuhrmans, "How to Get More Women in the Boardroom? Some Try Blunt Force," *The Wall Street Journal* (April 25, 2018).

[2] David Hellier and Emily Chasan, "Big Investors Push Harder for More Women Directors," *Bloomberg* (April 19, 2018).

[3] Joann S. Lublin, "New York State Fund Snubs All-Male Boards," *The Wall Street Journal* (March 20, 2018).