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Treasurer Chiang Calls for More Diversity on Corporate Boards

Including Expanding the Definition of Diversity to Include Sexual Orientation

SACRAMENTO – State Treasurer John Chiang today renewed his call for more diversity in corporate board rooms. Citing studies that show little progress toward increasing the number of women and minorities on such boards, Chiang called upon the California Public Employees' Retirement System and the California State Teachers Retirement System to take more steps to encourage change.

"There is broad agreement that a diverse corporate board is good for business," Chiang wrote. "Boards with directors who possess a wide range of skills and experiences are better positioned to oversee company strategy, risk mitigation, and management performance. Companies wishing to remain competitive in the new global economy will benefit from drawing on diverse experiences and perspectives that reflect a changing customer base."

Chiang, in a <u>letter</u> addressed to the presidents of both systems, acknowledged the groundbreaking efforts pursued by the nation's two largest pension funds over the past six years, but pointed to bottom-line results showing that corporate boards have largely preserved the status quo. He called for the two pension funds to further innovate and re-double their efforts. Specifically, he asked them to examine:

- how the use of proxy access (i.e., providing shareowners with means of nominating their own candidates) can help shape the composition of a board;
- what is a reasonable length of tenure for a board member to serve; and
- how qualified diverse candidates can become more visible to corporate boards during search and recruitment efforts.

Importantly, Chiang also called for the broadening of the definition of "diversity" to include sexual orientation and gender identity. CalSTRS currently limits the definition to "skills, background, experience, age, gender, cultural and ethnic composition." Similarly, CalPERS's definition narrowly reads, "skill sets, gender, age, nationality, race, and historically under-represented groups."

"Diversity helps businesses do better and that helps California's economy do better. I applaud Treasurer John Chiang's leadership on helping use the investment power of PERS and STRS—fueled with contributions from California employees of every stripe—to promote diversity in the boardroom," said Assembly Speaker Toni Atkins. "I'm especially pleased Treasurer Chiang is asking that the LGBT community be included as part of the criteria for diversity. If true diversity in the boardroom works for the biggest company in the world, it should be the goal of every other C-suite, and PERS and STRS can help more companies recognize that."

Treasurer Chiang, an ex officio board member at both CalPERS and the California State Teachers' Retirement System, six years ago as Controller pushed both pension systems to become global leaders in promoting corporate board diversity. Both systems answered the call.

CalPERS now includes board diversity as an engagement topic when placing companies on its Focus List for poor corporate governance or performance, encourages proxy voting firms to adopt its board diversity principles, and has developed best practices for companies to follow when seeking diverse board candidates.

CalSTRS has been involved in shareholder resolutions that have resulted in companies agreeing to actively consider diversity as a criterion to be considered when recruiting new board members. Both systems collaborated in developing a database of diverse director candidates that could be used by companies seeking to fill vacant board seats.

"Despite these efforts, we have barely moved the needle on diversity in corporate boardrooms," Chiang wrote. "We can and must do more to encourage the participation of women, persons of color, and LGBTs at the highest levels of corporate decision-making. Diversity of backgrounds and expertise is a strength that shareholders and investors value because it translates into bigger, more sustainable bottom lines."

"Diversity in the boardroom can only grow a company's opportunities by extending its reach to new markets," added Art Torres, retired State Senator and former President of the Kaitz Foundation, dedicated to bringing more people of color into management within the motion picture and cable television industries. "As more corporations seek to earn consumer loyalty among women and in the fast-growing Latino and LGBT communities, it's crucial that their corporate leaders have the life experiences and the knowledge to make those connections."

A 2008 report by the Alliance for Board Diversity found only 28 percent of board seats on Fortune 100 companies were held by women and minorities ("<u>Women and Minorities on Fortune 100 Boards</u>." Alliance for Board Diversity. 2008). A 2013 update of the report finds that as of 2012, the ranks of women and minorities in Fortune 100 board positions has improved by only four percentage points to approximately 32 percent ("<u>Missing Pieces: Women and Minorities on Fortune 500 Boards</u>." Alliance for Board Diversity. 2013).

Chiang said a diverse board makeup improves employee morale and productivity and sends a message to employees throughout the organization that a company is committed to the advancement of

women and minorities. At the same time, Chiang added, such diversity enhances a company's reputation and attractiveness at a time when many investors are increasingly using a variety of nonfinancial metrics, such as board diversity, as criteria in investment decision-making.

"Diversity is an important element of a strong board," said Dominic Ng, Chairman and CEO of East West Bank. "Statistics have shown that companies that embrace diversity in their leadership tend to deliver stronger financial performance."

Read this press release in Spanish.

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