Diversity Engagement & Voting Policy Case Study

Background

It is widely accepted by way of empirical research and good governance standards that diversity helps create long-term shareholder value. The belief behind this is that a group of individuals from a diverse range of backgrounds are more likely to make stronger decisions and avoid the dangers of 'group-think'.

It is also good business sense that company board members, as well as possessing expertise in key risk areas such as legal and financial, should be able to relate to the company’s clients. Diversity is also a lead indicator of wider corporate culture. Too often we have seen companies fail or make poor decisions when the board is populated with directors unwilling or unable to challenge a single domineering personality.

Our Objectives

Female participation in the global workforce is unequal, and a key area of inequality is in senior corporate positions. Women occupy just 21.6% of board seats in MSCI World Index companies. We do not have a full data set available to us at the management level, but we would expect similar findings. While we acknowledge there are cultural reasons which have historically prevented women from reaching senior positions in business, we do not believe this level is acceptable in 2019.

Our first-hand experience of performing company research has also found that company disclosure on diversity is poor. This includes basic workforce statistics and details on policies. Not only does this make it hard for us as investors to assess a company’s culture, but it also makes it difficult for prospective employees to do the same. Employees are attaching increasing weight to a company’s diversity and inclusion performance, and not only will companies which perform poorly fail to attract the best candidates available, but those companies which do not disclose their efforts are also likely to suffer.

We do not just see this as a risk to shareholder value as we discuss above, but we believe that enabling gender equality at all levels of society is the responsibility of companies and their investors. For example, research by McKinsey Global Institute found that increasing female participation in the workforce could increase GDP by $12 trillion by 2025. In fact, this is seen as such an important global objective that the UN has dedicated one of its Sustainable Development Goals solely to gender equality.

Therefore we are focusing on two objectives where we believe the most shareholder value lies, and where we can have the most influence as investors:

1. Encouraging companies to increase the participation of women at senior levels by growing the pipeline
2. i) Where a company has a diversity strategy but disclosure is poor, encouraging the company to improve disclosure;
   ii) Where a company has no diversity strategy, encouraging the company to develop one and disclose it

Our Voting and Engagement Policy
Our policy intends to address the two objectives listed above.
As part of the research conducted ahead of a company’s annual general meeting (AGM) to inform our voting decisions, we will look at two key indicators:

1. **A company’s publicly disclosed diversity and inclusion policies**
   We expect a company to provide basic public disclosure on its diversity and inclusion policies and practices, not just in relation to gender but encompassing a wider understanding of diversity. We expect to find this on the company’s corporate website, its careers page and in its annual report (or corporate social responsibility report).

2. **The gender split of a company’s board, and any other workforce data disclosed.**
   When examining workforce data, we believe it is appropriate to split our policy geographically to account for regional differences. At board level, in countries where we believe gender diversity can be reasonably expected, we look to find at least 30% of board seats being held by women. In countries where gender diversity is less well established, we expect to see progress towards the 30% level and to see diversity as a consideration in the board member nomination process.
   We firmly emphasise that 30% does not represent a mandatory quota, and we will judge each company on a case-by-case basis, in the context of its geography and industry, as well as any other workforce data it discloses. We also appreciate gender is not the only measure of diversity; however, it is the only one universally disclosed at board level, and therefore the only one on which we can vote at present.

**Voting Action Scenarios**

1. **In countries where diversity is better established**
   - If a company meets neither our board gender diversity criteria nor our disclosure requirements, we will vote against the chair of the nomination committee and engage with the company.
   - If a company fails one of our criteria, we will engage to explain our policy and vote against the chair of the nomination committee in future years if we see insufficient progress.

2. **In countries where diversity is less well established**
   - If a company fails any or both of our criteria, we will engage to explain our policy and vote against the chair of the nomination committee in future years if we see insufficient progress.

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2. [https://www.msci.com/documents/10199/36ef83ab-ed68-c1c1-58fe-86a3eab673b8](https://www.msci.com/documents/10199/36ef83ab-ed68-c1c1-58fe-86a3eab673b8)
IMPORTANT INFORMATION

Investors should consider the investment objectives, risks, charges, and expenses of a mutual fund carefully before investing. Contact a financial advisor or visit im.bnymellon.com to obtain a prospectus, or summary prospectus, that contains this and other information about the fund, and read it carefully before investing.

All investments involve risk including loss of principal. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment. Asset allocation and diversification cannot ensure a profit or protect against loss.

Risks:

Bonds are subject to interest-rate, credit, liquidity, call and market risks, to varying degrees. Generally, all other factors being equal, bond prices are inversely related to interest-rate changes and rate increases can cause price declines. Equities are subject to market, market sector, market liquidity, issuer, and investment style risks to varying degrees.

Currencies can decline in value relative to a local currency, or, in the case of hedged positions, the local currency will decline relative to the currency being hedged. These risks may increase fund volatility.

Investing in foreign denominated and/or domiciled securities involves special risks, including changes in currency exchange rates, political, economic, and social instability, limited company information, differing auditing and legal standards, and less market liquidity. These risks generally are greater with emerging market countries.

Impact investing and/or Environmental, Social and Governance (ESG) managers may take into consideration factors beyond traditional financial information to select securities, which could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. Further, ESG strategies may rely on certain values based criteria to eliminate exposures found in similar strategies or broad market benchmarks, which could also result in relative investment performance deviating.

Views expressed are those of the advisor stated and do not reflect views of other managers or the firm overall. Views are current as of the date of this publication and subject to change.

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