

More Investors to Vote Against Directors for Lack of Board Diversity, and Specialty ISS Policies Push for 30% Diverse Representation

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Certain investors are expected to hold governance committees, and in some cases the entire board, accountable through director elections this proxy season for perceived lack of board diversity.

ISS has updated its Socially Responsible Investing (SRI) and Catholic Faith-Based policies so that the proxy advisor will recommend against incumbent governance committee members under the SRI policy, and all incumbent board members under the Catholic Faith-Based policy, at boards that are not at least 30% diverse and include at least one woman and one ethnic minority. Given that only 24% of Russell 3000 boards have such composition, the policies are expected to result in a “substantial increase” in the number of negative recommendations for directors. At the current pace, S&P 500 boards are expected to reach 30% diversity by 2028, but not until 2037 for Russell 3000 companies.

Board diversity continues to be a significant issue for many pension fund investors. In July 2017, CalPERS sent letters to Russell 3000 companies that it believes lacked diversity, and a follow-up was directed in December toward companies where they received no response or inadequate response. The fund may vote against the board chair and the entire nominating and governance committee at those companies in 2018.

The [WSJ reported yesterday](#) that the New York State Common Retirement Fund will vote against the election of all directors at companies without any women directors. The article includes a chart of 45 companies in the Russell 1000 that have not had a female director since 2006.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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