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CalPERS turns focus to board diversity in proxy voting

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CalPERS voted against 438 directors at 141 companies based on the companies' failure to respond to CalPERS efforts to urge greater board diversity, said Simiso Nzima, investment director, corporate governance.

These votes were the result of a new effort started in July 2017. CalPERS voted against board chairmen, nominating and governance committee members and directors with tenures of 12 years or more, he said. CalPERS is starting to hear from executives at some of the companies at which it cast a no vote that are now willing to engage CalPERS regarding the lack of diversity on their boards, Mr. Nzima said.

Officials at the \$361.1 billion pension plan in July 2017 wrote letters to 504 companies in the Russell 3000 asking them to improve diversity on their boards. In December, CalPERS officials sent a second letter to non-responsive companies warning that the pension plan would use its proxy votes to hold boards accountable for their failure to improve diversity.

As of July 31, 151 of the 504 companies had added at least one diverse director to their boards.

The [California Public Employees' Retirement System](#), Sacramento, is not alone in pressing the issue, Mr. Nzima said.

These companies "are hearing not just from us but other investors as well," Mr. Nzima said.

Due to its size, CalPERS owns the market, he said.

"We own much more than other pension funds and we can reach out to more companies than other pension funds," Mr. Nzima noted.

Once more companies diversify their boards, it will encourage women and minority executives to apply for board seats, he said.

There is no lack of candidates. Indeed, CalPERS and the \$228 billion [California State Teachers' Retirement System](#), West Sacramento, jointly created a database a few years ago.

However, there is a difference between lack of supply of qualified candidates and qualified candidates failing to apply for board seats, Mr. Nzima said. If people don't think there is an opportunity to be chosen for a board seat, they won't apply, he explained.

"When (potential candidates) see opportunities are available for diverse candidates, the number of people who make themselves available increases," Mr. Nzima said.

CalPERS will continue to collaborate with other asset owners and money managers on strategies to improve board diversity, he said.

In other action during the proxy-voting season, CalPERS voted against 6,124 non-independent directors at 794 Japanese companies where independent directors make up less than a third of the board. In 2017, CalPERS amended its proxy-voting practice for Japan to increase board independence and to vote against non-independent directors when less than a third of the board's directors are independent. By comparison, in 2017, CalPERS had voted against 6,509 non-independent directors at 864 companies.

In the U.S., CalPERS in the 2018 proxy season implemented an enhanced voting practice on executive compensation, voting against 43% of say-on-pay proposals, compared to 18% in 2017. The primary reason for the vote against the proposals was the companies' failure to align pay with performance. In 2018, CalPERS officials increased their level of scrutiny when reviewing a company's pay and performance practices, casting a wider net of company plans it would oppose and including more factors such as CEO pay ratio information.

Inline Play

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