27 August 2020

Dear Board Chair,

As a long-term investor in more than 10,000 public companies across the world, State Street Global Advisors believes that the single most important driver of long-term value is a strong, independent and effective board exercising high-quality oversight. In turn, we have long appreciated the positive correlation among diversity at the workforce and board levels, effective boards and oversight and sustainable long-term financial performance. As such, whether through our long-standing stewardship focus on gender diversity and board effectiveness, amplified by our Fearless Girl campaign, or the integration of Sustainability Accounting Standards Board (SASB – see Figure 1) diversity metrics into our Environmental, Social and Governance (ESG) scoring system, R-Factor™1, we have called on companies to disclose more details regarding the diversity of their boards and workforces.

The ongoing issue of racial equity has caused us to focus more closely on the ways in which racial and ethnic diversity impacts us as investors. As such, we are writing to inform you that starting in 2021, State Street Global Advisors will ask companies in our investment portfolio to articulate their risks, goals and strategy as related to racial and ethnic diversity, and to make relevant disclosure available to shareholders.

As long-term investors, we are convinced that the lack of racial and ethnic diversity and inclusion poses risks to companies that senior managements and boards should understand and manage. The risks that can arise from having a homogeneous board and workforce are well understood and drove our focus on gender diversity years ago. Research demonstrates the tendency for groups composed of people from similar backgrounds to refrain from challenging prevailing views, as well as the positive impacts that diverse groups can have on improved decision making, risk oversight and innovation.2 Other studies have shown that management teams with a critical mass of racial, ethnic and gender diversity are more likely to generate above-average profitability.3 Further, companies that promote workforce diversity and inclusion through transparent hiring, promotion and wage practices have seen improved productivity,4 revenues5 and market share.6 Likewise, companies with limited diversity are more likely to underperform their peers7 and face reputational risks.8 Unfortunately, while companies in the United States are required by regulators to track racial diversity data, only 4% of Russell 1000 companies publicly share detailed data on their employees’ gender and ethnicity.9

While gender diversity data is generally measurable and comparable among companies across the globe, our engagements with portfolio companies have revealed that tracking racial and ethnic diversity is challenging for companies, boards, and investors. Racial and ethnic diversity may vary significantly across different countries and regions. From a disclosure standpoint, some countries limit the gathering of information related to racial and ethnic minorities. In addition, while SASB’s approach to human capital management is evolving, its current diversity metrics only apply to nine industries.

While we acknowledge these complexities, we also believe it is critical for boards and investors to have more robust information and data regarding the racial and ethnic workforce diversity of companies in their portfolios and to understand the steps they are taking to achieve relevant goals. To this end, we ask that US companies in our portfolio and, to the greatest extent possible, non-US companies, provide specific communications to shareholders in five key areas:

1. **Strategy:** Articulate what role diversity plays in the firm’s broader human capital management practices and long-term strategy.

2. **Goals:** Describe what diversity goals exist, how these goals contribute to the firm’s overall strategy, and how these goals are managed and progressing.
3. **Metrics:** Provide measures of the diversity of the firm’s global employee base and board. For example:
   - **Workforce:** Employee diversity by race, ethnicity and gender, broken down by industry-relevant employment categories or levels of seniority, for all full-time employees. In the US, companies can use the disclosure framework set forth by the United States Equal Employment Opportunity Commission’s EEO-1 Survey. Non-US companies are encouraged to disclose this information in alignment with SASB’s guidance and nationally appropriate frameworks.
   - **Board Level:** Diversity characteristics, including racial and ethnic makeup, of the board of directors.

4. **Board:** Articulate goals and strategy related to racial and ethnic representation at the board level, including how the board reflects the diversity of the company’s workforce, community, customers and other key stakeholders.

5. **Board oversight:** Describe how the board executes its oversight role in diversity and inclusion.

Further, we ask companies to assess the barriers to entry and impediments to recruitment and retention of diverse talent, especially at senior levels of the organization. We encourage companies to take steps that ensure that diverse talent pools are sourced, supported and developed. At the board level, the talent pipeline is often narrowed by focusing on job experiences, such as being a former CEO, at the expense of the core competencies that strong directors possess. Companies that intentionally expand their search criteria often cite that there is already a broad pool of racial and ethnically diverse talent available.

These topics will be part of our engagement conversations. As always, our primary tool is engagement with management and the board with the objective of understanding a company’s plan and how the board is carrying out its oversight role. However, if required, we are prepared to use our proxy voting authority to hold companies accountable for meeting our expectations.

We recognize that change—particularly in today’s economy—can seem daunting. Our own company, State Street Corporation, has taken many steps to address inequality and racism in our organization, in our communities and through our asset stewardship program, which are outlined in our past Corporate Responsibility Reports and Stakeholder Report. But we, too, have much more work to do, particularly when it comes to our board and senior leadership representation. Senior management has recently reviewed our company’s practices and committed to taking 10 immediate actions to strengthen racial equality, which can be viewed here. Our board will oversee our progress.

As our Chairman and CEO, Ron O’Hanley wrote in June, “Simply because most of us are innocent bystanders does not mean that we can just stand by.” Indeed, as we have learned over the past several years—from the launch of our Fearless Girl campaign to today—when we work together on matters of value for investors and companies alike, we can improve bottom lines, drive greater overall shared prosperity and also advance social progress, in alignment with State Street’s mission.

We look forward to engaging on this important issue. For questions, please reach out to our Asset Stewardship Team at GovernanceTeam@ssga.com.

Sincerely,

Rick Lacaille
Global Chief Investment Officer
State Street Global Advisors
Responsible-Factor (R Factor) scoring is designed by State Street to reflect certain ESG characteristics and does not represent investment performance. Results generated out of the scoring model is based on sustainability and corporate governance dimensions of a scored entity.


McKinsey, Delivering through Diversity


“Global Diversity and Inclusion: Fostering Innovation Through a Diverse Workforce,” Forbes Insights, last modified July 2011

“Kelly Services: Diversity must help bottom line to be sustainable,” Crain’s Detroit Business, last modified November 14, 2013

McKinsey, Delivering through Diversity

PWC, Magnet for talent: Managing diversity as a reputational risk and business opportunity

Big Companies Track Workforce Diversity But Won't Share the Results, Bloomberg, July 27, 2020

The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. Investing involves risk including the risk of loss of principal. It does not take into account any investor’s particular investment objectives, strategies, tax status or investment horizon. You should consult your tax and financial advisor.

All information is from SSGA unless otherwise noted and has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such.

The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without State Street Global Advisors’ express written consent.