UNITED STATES
PUBLIC FUND ADVISORY SERVICES POLICY UPDATES

2021 Policy Recommendations

Published December 27, 2020
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Director Elections

Board Competence

Excessive Directorships

<table>
<thead>
<tr>
<th>Current Public Fund Advisory Services Policy, incorporating changes:</th>
<th>New Public Fund Advisory Services Policy:</th>
</tr>
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<td>▪ CEOs of publicly-traded companies who serve on more than two one public boards besides their own. NOTE: Public Fund Advisory Services will recommend a vote against or withhold from overboarded CEO directors only at their outside directorships¹ and not at the company in which they presently serve as CEO; or</td>
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<td>▪ Non-CEO directors who serve on more than five four public company boards.</td>
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¹ Although all of a CEO’s subsidiary boards with publicly-traded common stock will be counted as separate boards, Public Fund Advisory Services will not recommend a withhold/against vote for the CEO of a parent company board or any of the controlled (>50 percent ownership) subsidiaries of that parent, but will do so at subsidiaries that are less than 50 percent controlled and boards outside the parent/subsidiary relationships.

Rationale for Change:

Time Requirement and Expectations

¹ Although all of a CEO’s subsidiary boards with publicly-traded common stock will be counted as separate boards, Public Fund Advisory Services will not recommend a withhold/against vote for the CEO of a parent company board or any of the controlled (>50 percent ownership) subsidiaries of that parent, but will do so at subsidiaries that are less than 50 percent controlled and boards outside the parent/subsidiary relationships.
While the time commitment associated with a directorship varies depending on the nature of the mandate, generally expectations and time commitments have increased. According to surveys by the National Association of Corporate Directors, in 2005, the average annual time commitment for a directorship was 190 hours. By 2018, the average had increased almost 30 percent to 245 hours. This increase in time commitment is a reflection of heavier board workloads. Thus, a CEO's outside directorships should be particularly scrutinized when considering the already busy executive schedule. Taking on an additional board seat means investing extra time that the CEO may not have. A heavy workload may raise investors' concerns about the director's oversight ability. In addition to the increase in time commitment, a director's responsibilities and expectations are more demanding than ever. Directors are now expected to oversee a wider variety of risks, including warding off cyber-risks, responding to a changing corporate culture, and preparing for other potential threats such as pandemics. Nowadays, boards have to manage increasingly encompassing threats that have varying degrees of impacts on the business model, markets and industries.

Shifting Perspectives on Acceptable Outside Directorship Limits

Directors are considered overboarded if they sit on a number of boards which could result in excessive time commitments and an inability to fulfill their duties.

While some countries' governance codes include limits on the number of outside mandates that can be held by a director, investors have taken it upon themselves in other markets to set acceptable thresholds for the number of directorships a director may responsibly hold. Over the past two years, a shift has been observed where the number of acceptable outside mandates has decreased. As shown in the figure below, the tightening of commitments may have resulted in an uptick in adverse vote results against those directors who investors consider overboarded. In 2019, over 30 percent of nominations of outside CEOs who served on three boards received less than 80 percent support, compared to only 3 percent in 2016. Leading this change, large institutional investors such as Vanguard and Blackrock have adopted stricter guidelines for directors serving on outside boards. For CEO directors or full time executives, certain large institutional investors will only accept one additional directorship, lowering the CEO threshold from three total boards to two total boards.

Issuers have also set limits on directors' commitments. Among S&P 500 companies, 77 percent of issuers have set limits on their directors' outside commitments, with 27 percent having limits specifically for CEOs. Of those issuers who have set limits on their CEO's outside mandates, all of them have set limits of either two or three total boards. In 2007, 55 percent of the S&P companies had self imposed some limit on their directors' outside commitments. In 2017, CEOs had already significantly reduced their outside board commitments. Only six percent of the S&P 500 CEOs served on more than two boards. A third had CEOs serving on only one outside board, compared to 55 percent in 2016. Overall the percentage of CEOs serving on one or more outside board has decreased by 20 percent in the last five years, and 29 percent in the last decade.

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5 The Debate About Directors With Too Many Board Commitments, Michael Peregrine, Forbes, 2019
6 Time is Money, The Link Between Over-Boarded Directors and Portfolio Value, Governance Brief, State Board of Administration, 2019
7 The Debate About Directors With Too Many Board Commitments, Michael Peregrine, Forbes, 2019
8 Director Overboarding: Global Trends, Definition and Impact, Governance Insights, ISS, 2019
9 Spencer Stuart, U.S. Board Index 2017
10 The Debate About Directors With Too Many Board Commitments, Michael Peregrine, Forbes, 2019
11 Time is Money, The Link Between Over-Boarded Directors and Portfolio Value, Governance Brief, State Board of Administration, 2019
Company Performance

A 2018 Florida State Board of Administration study titled "Time Is Money" found that boards with above average levels of directorships exhibited lower average 5-year stock performance of approximately 140 basis points (1.4 percent).  

As highlighted a correlation exists between company performance and overboarding. Various scenarios of director overboarding were evaluated against Economic Value Added's (EVA) Margin & Momentum, ISS' proprietary measures; and a correlation was found between overboarding and economic under performance. This correlation could signal that shareholders, investors and issuers may benefit from having directors on their boards that do not over-extend themselves.
"For the purposes of this analysis, our definition of “overboarded director” considered non-CEO directors who serve on more than four public company boards and CEOs (on the board of the company they manage or on an outside board) who serve on more than two boards."

Investor Sentiment

The concept of director overboarding and its link to effective director oversight of corporate governance risks dates back to the Sarbanes-Oxley era. Since then, investors have regarded directors’ board commitments as a tenet of good corporate governance. Issuers are also paying closer attention to the number of boards directors sit on. Some large institutional investors have recently tightened their limits on a director’s board commitments, presumably believing the time commitment required to be an effective board member at a public company has increased in recent years. This change will align the Public Fund policy with the views of clients.

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9 Corporate Law & Governance Update - April 2019, McDermott Will & Emery, 2019
10 2018 United States Spencer Stuart Board Index, Spencer Stuart, 2018
11 2019 Proxy Season Takeaways, PJT Camberview, 2019
Results of Public Fund Advisory Services’ 2020 Policy Survey as well as ISS’ 2019 Global Proxy Survey indicate that a plurality of clients view a maximum of four total director appointments as an appropriate limit for non-CEO directors and two total director appointments for directors that are CEOs at outside companies.

**Gender Diversity**

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<tr>
<td><strong>Gender Diversity:</strong> For companies in the Russell 3000 or S&amp;P 1500 indices, generally vote against or withhold from the chair of the nominating committee (or other directors on a case-by-case basis) at companies where there are no women on the company’s board. An exception will be made if there was a woman on the board at the preceding annual meeting and the board makes a firm commitment to return to a gender-diverse status within a year.</td>
<td><strong>Gender Diversity:</strong> For companies in the Russell 3000 or S&amp;P 1500 indices, generally vote against or withhold from the chair of the nominating committee (or other directors on a case-by-case basis) at companies where there are no women on the company’s board. An exception will be made if there was a woman on the board at the preceding annual meeting and the board makes a firm commitment to return to a gender-diverse status within a year.</td>
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**Mitigating factors include:**

- Until Feb. 1, 2021, a firm commitment, as stated in the proxy statement, to appoint at least one woman to the board within a year;
- The presence of a woman on the board at the preceding annual meeting and a firm commitment to appoint at least one woman to the board within a year; or
- Other relevant factors as applicable.

**Rationale for Change:**

Under the 2019 announcement of the policy regarding board gender diversity on boards, a transitional year (2020) was provided so that a company that previously had not had a female director could make a commitment to add one by the following year. This transitional year has now passed, so the policy is being updated to remove it.

Starting in February 2021, the only exception to the adverse vote recommendations for companies with no women on their board will be if the board has temporarily lost its gender diversity: that is, if there was at least one woman on the board at the previous annual meeting, and the board commits to restoring its gender diversity by the next annual meeting.
**Racial/Ethnic Diversity**

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<td><strong>Racial and/or Ethnic Diversity:</strong> For companies in the Russell 3000 or S&amp;P 1500 indices, highlight boards with no apparent racial and/or ethnic diversity.</td>
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<td>For companies in the Russell 3000 or S&amp;P 1500 indices, effective for meetings on or after Feb. 1, 2022, generally vote against or withhold from the chair of the nominating committee (or other directors on a case-by-case basis) where the board has no apparent racially or ethnically diverse members. An exception will be made if there was racial and/or ethnic diversity on the board at the preceding annual meeting and the board makes a firm commitment to appoint at least one racial and/or ethnic diverse member within a year.</td>
<td>For companies in the Russell 3000 or S&amp;P 1500 indices, effective for meetings on or after Feb. 1, 2022, generally vote against or withhold from the chair of the nominating committee (or other directors on a case-by-case basis) where the board has no apparent racially or ethnically diverse members. An exception will be made if there was racial and/or ethnic diversity on the board at the preceding annual meeting and the board makes a firm commitment to appoint at least one racial and/or ethnic diverse member within a year.</td>
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**Rationale for Change:**

Recent social unrest has put racial and ethnic injustices and inequalities at the forefront of many investors' minds and many boards' deliberations. Many investors have expressed interest in seeing ethnic or racial diversity on boards, citing reasons of equality and good corporate governance.

**ISS Policy survey results**

In ISS' 2021 Global Policy Survey, when asking about the importance of ethnic and/or racial diversity on corporate boards, almost 60 percent of investors indicated that boards should aim to reflect the company's customer base and the broader societies in which they operate by including directors drawn from racial and ethnic minority groups. When asked about actions considered appropriate to increase the racial and ethnic make-up of the board, 86 percent of investor respondents and 92 percent of non-investor respondents indicated that it would be appropriate to engage with the company to encourage increased racial and ethnically diverse directors. Support of shareholder proposals on topics of workplace diversity disclosure and targets, and "Rooney rule" type shareholder proposals were the second and third most popular answer for both investors and non-investors. Notwithstanding, a majority of investors (57 percent) responded that they would consider voting against members of the nominating committee (or other directors) where board racial and ethnic diversity is lacking.

In 2021, the Public Fund Advisory Services research reports will highlight boards that lack racial and/or ethnic diversity to help investors identify companies with which to engage and will foster dialogue between investors and issuers on this topic. While the US Public Fund Advisory Services policy will not use any lack of racial and/or

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12 Aggregate diversity statistics provided by the board will only be considered if specific to racial and/or ethnic diversity.
ethnic diversity as a factor in its vote recommendations on directors in 2021, Public Fund Advisory Services will identify in its reports when a board lacks racial and ethnic diversity.

For 2022, Public Fund Advisory Services will issue adverse vote recommendations, generally voting against or withhold from the chair of the nominating committee (or other directors on a case-by-case basis) where the board has no apparent ethnically or racially diverse members.

A recruiting priority, legislation in California and SEC developments

Obstacles to increasing racial and ethnic representation on board are highlighted in the "Black Corporate Directors Time Capsule Project"\(^\text{13}\), a survey conducted by seasoned retired corporate director Barry Lawson Williams. Recruiting through social networks has perhaps had the most negative effect of "perpetuating long-standing inequities". Another obstacle to achieving increased diversity on corporate boards is the recruiting pipeline, which itself is not conducive for diverse candidates to "feed into future CEO and board roles"\(^\text{14}\). A Korn Ferry study conducted for the Executive Leadership Council, which advocates for promotion of black executives into the top executive ranks and boardrooms, also came to a similar finding; African-American executives are disproportionately in support roles versus senior executives in so-called "profit and loss roles"\(^\text{15}\).

While great strides have been made to increase the gender diversity of boards, efforts to increase the racial and ethnic make-up of corporate boards has been slow\(^\text{16}\) and even declining. Conversely, the 2019 U.S. Spencer Stuart Board Index\(^\text{17}\) found that diversity is a priority for boards; of the 432 directors added to corporate boards of the S&P 500 index in 2019, 59 percent were women and/or minorities. Of the new directors, 23 percent were minorities (defined as African-American, Hispanic/Latino or Asian in the study). Minority women represented 10 percent of the incoming class, up slightly from 9 percent for director appointments in 2018. Minority men represented 13 percent of the new directors, an increase from 10 percent last year but still down from 14 percent two years ago. Moreover, according to a Bloomberg article, the "executive recruiting firm Spencer Stuart Inc., the firm says the percentage of Black executives joining boards in 2020 fell to 11% from 13% the year before"\(^\text{18}\).

Interestingly, the study found that of the surveyed Nominating/Governance committee members, the highest priority board recruiting profiles in the next three years included recruiting minorities " Looking ahead, digital/social media experience, as well as minority status, will become more important qualities in recruiting profiles, replacing financial and operational skill sets in the top 5 priorities."\(^\text{15}\)

\(\text{13} \) (https://barrylawsonwilliams.com/bcd-time-capsule)
\(\text{15} \) https://www.bloomberg.com/news/articles/2019-10-10/black-executives-hold-few-positions-that-lead-to-ceo-job
\(\text{16} \) (https://hbr.org/2020/08/why-do-boards-have-so-few-black-directors
\(\text{18} \) (https://www.bloombergquint.com/onweb/companies-seek-more-black-directors-after-adding-women)
Furthermore, the state legislature in California has passed, and the Governor approved on Sept 30, 2020, a new bill, AB 979, to promote “underrepresented communities” on boards of directors.

Speaking at the CII conference on Sept. 22, 2020, Commissioner Allison Herren Lee noted the SEC could go farther by strengthening existing guidance on board candidate diversity characteristics. This year, the SEC adopted amendments to Regulation S-K, a regulation which governs the description of business, legal proceedings, and risk factor disclosure, to add human capital as a topic for disclosure. This amendment reflects a general trend that the SEC has slowly established regarding diversity disclosure. In 2009, the SEC demanded companies disclose how diversity was considered as a factor in the hiring process for directors. In 2018, the SEC issued guidance to "encourage the disclosure of self-identified characteristics of board candidates".

**Investor initiatives**

Large institutional investors, such as Vanguard and State Street Global Advisors (SSGA), have traditionally focused more of their diversity efforts on gender. However, as awareness of the lack of minority representation on U.S. boards has drawn growing attention, there seems to be a shift by such institutional investors to focus on efforts regarding improving the number of racially diverse directors on corporate boards.

In its August 27, 2020 letter addressed to chairs of corporate boards, SSGA states "the lack of racial and ethnic diversity and inclusion poses risks to companies that senior managements and boards should understand and manage." SSGA "believes 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."

In August of the prior year, Vanguard put companies that it invests in on notice to seek greater diversity on their boards. According to its 2019 Investment Stewardship Annual Report, Vanguard stated:

> We have long believed in the importance of diversity in the boardroom, and we have increasingly advocated for greater representation of women on corporate boards. We are expanding our focus to more explicitly urge boards to seek greater diversity across a wide range of personal characteristics, such as gender, race, ethnicity, national origin, and age.

Vanguard requests companies to disclose their diversity policies and report on the race and ethnicity makeup of the board, at least on the aggregate level. Vanguard expects companies to make progress in boardroom diversity by encouraging companies to widen their search for director candidates. Moreover, SSGA appeals for

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21 [https://www.thecorporatecounsel.net/blog/2020/09/vanguards-expectations-for-board-diversity.html](https://www.thecorporatecounsel.net/blog/2020/09/vanguards-expectations-for-board-diversity.html)
companies to disclose racial and ethnic diversity at the board level and at the overall employee level. Engagement with the company is SSGA’s main way of addressing racial and ethnic diversity, but they are prepared to use proxy voting as another means of holding companies accountable.\textsuperscript{22}

In addition, a number of investor groups advocating for increased ethnic minority representation on corporate boards have come out with a plan to call out corporate America. Recently formed coalitions, The Board Diversity Action Alliance and The Board Challenge, have sprung into action with announcements in September 2020 regarding their efforts to increase the racial makeup of corporate boards in the US. The Board Diversity Action Alliance, founded by Teneo, the Ford Foundation, and The Executive Leadership Council, describes itself as a business-led initiative with a focus aimed at increasing the representation of racially and ethnically diverse directors on corporate boards beginning with Black directors, as well as an additional focus on disclosure.\textsuperscript{23} The Board Challenge, a group comprised of 43 public and private companies and organizations, has launched a pledge for U.S. corporate board of directors to add a Black director within the next year. The Board Challenge has over 40 signatories and is aiming to grow to more than 400 signatories within the next year.\textsuperscript{24} Meanwhile Latino Voices for Boardroom Equity, a new initiative led by Latino Corporate Directors Association (LCDA) in partnership with a number of civic and business leaders, aims to improve Latino boardroom representation. The main objectives are to: (1) triple Latino representation on public company boards by 2023; (2) act to target corporations with no Latino representation; and (3) track progress through publication of a quarterly scorecard.\textsuperscript{25}

Despite obstacles, it remains clear that an increase in the racial and/or ethnic make-up of corporate boards is a priority for investors and society.

\textsuperscript{22}\url{https://www.thecorporatecounsel.net/blog/2020/08/dialed-in-ssga-letter-calls-for-diversity-disclosures.html}
\textsuperscript{23}\url{https://boarddiversityactionalliance.com/}
\textsuperscript{24}\url{https://theboardchallenge.org/}
\textsuperscript{25}\url{https://latinocorporatedirectors.org/latino_voices_for_boardroom_eq.php}
## Board Accountability

### Governance Failures: Material Environmental & Social Risk Oversight Failures

<table>
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<tr>
<td>- The presence of problematic governance practices including interlocking directorships, multiple related-party transactions, excessive risk-taking, imprudent use of corporate assets, etc.;</td>
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<td>- Inadequate CEO succession planning, including the absence of an emergency and non-emergency/orderly CEO succession plan;</td>
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<td>- Material failures of governance, stewardship, risk oversight*, or fiduciary responsibilities at the company, failure to replace management as appropriate, flagrant or egregious actions related to the director(s)' service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company; or</td>
<td>- Material failures of governance, stewardship, risk oversight*, or fiduciary responsibilities at the company, failure to replace management as appropriate, flagrant or egregious actions related to the director(s)' service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company; or</td>
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<td>- Chapter 7 bankruptcy, Securities &amp; Exchange Commission (SEC) violations or fines, and criminal investigations by the Department of Justice (DOJ), Government Accounting Office (GAO) or any other federal agency.</td>
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* Examples of failure of risk oversight include but are not limited to: bribery; large or serial fines or sanctions from regulatory bodies; demonstrably poor risk oversight of environmental and social issues, including climate change; significant adverse legal judgments or settlements; or hedging of company stock.

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### Rationale for Change:

While the specific language regarding the “Governance Failures” policy varies from market to market, every Public Fund Advisory Services policy guideline document in this region is being updated to include explicit references to poor risk oversight of environmental and social issues as examples of material failure that may result in adverse vote recommendations.
Shareholder Rights

Virtual Shareholder Meetings

Current Public Fund Advisory Services Policy, incorporating changes:

**Public Fund Advisory Services Recommendation:** Generally vote for management proposals allowing for the convening of shareholder meetings by electronic means, so long as they do not preclude in-person meetings. Companies are encouraged to disclose the circumstances under which virtual-only meetings would be held, and to allow for comparable rights and opportunities for shareholders to participate electronically as they would have during an in-person meeting.

Vote case-by-case on shareholder proposals concerning virtual-only meetings, considering:

- Scope and rationale of the proposal; and
- Concerns identified with the company’s prior meeting practices.

New Public Fund Advisory Services Policy:

**Public Fund Advisory Services Recommendation:** Generally vote for management proposals allowing for the convening of shareholder meetings by electronic means, so long as they do not preclude in-person meetings. Companies are encouraged to disclose the circumstances under which virtual-only meetings would be held, and to allow for comparable rights and opportunities for shareholders to participate electronically as they would have during an in-person meeting.

Vote case-by-case on shareholder proposals concerning virtual-only meetings, considering:

- Scope and rationale of the proposal; and
- Concerns identified with the company’s prior meeting practices.

Rationale for Change:

The COVID-19 global pandemic has significantly changed how shareholders’ meetings are held due to the widespread use of virtual-only meeting formats in response to lockdowns and other social distancing requirements adopted in most markets. In the U.S., regulations regarding company meeting formats (virtual, in-person or hybrid) are determined at the state level. While some states already included virtual meetings as part of the pre-COVID-19 regulatory framework, others had to set rules for the adoption of virtual meeting formats expeditiously as the pandemic continued to expand. As a result, virtual-only and/or hybrid (combined on-line and physical) shareholders meetings are being considered by more companies for future meetings.

While there is a compelling rationale for restricting physical meetings during an unprecedented global pandemic, the potential long-term impacts of moving to virtual-only formats on the rights of shareholders is the subject of debate. While some express concerns over company abuses during shareholder meetings, others propose the format as beneficial to shareholders. In their paper, “Back to the Future? Reclaiming Shareholder Democracy Through Virtual Annual Meetings,” authors Yaron Nili & Megan Wischmeier Shaner assert: “Virtual meetings allow shareholders to attend meetings at a low cost, holding the promise of re-engaging retail shareholders in

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26 Virtual-only shareholder meeting” refers to a meeting of shareholders that is held exclusively using technology without a corresponding in-person meeting.
corporate governance. If structured properly, virtual meetings can reinvigorate the annual meeting, reviving shareholder democracy while maintaining the efficiency benefits of proxy voting.” However, in the same paper, it is noted that many large institutional shareholders and activist groups including CII, CalPERS, CalSTRS and the New York City Pension Funds have voiced opposition to virtual-only shareholders meetings, stating a preference for technology to supplement rather than supplant in-person meetings. These types of investors have stated that they may oppose directors in elections held at virtual-only meetings. These opinions could shift depending on the evolving technological capability to provide a virtual meeting experience that sufficiently approximates the in-person meeting.

The US Public Fund Advisory Services policy currently does not have a stated policy for management proposals allowing for the convening of meetings by electronic means. This change is establishing a policy to generally recommend a vote for management proposals allowing for the convening of shareholder meetings by electronic means, so long as they do not preclude in-person meetings. Companies are encouraged to disclose the circumstances under which virtual-only meetings would be held, and to allow for comparable rights and opportunities for shareholders to participate electronically as they would have during an in-person meeting. In addition, the policy establishes a case-by-case approach on potential shareholder proposals on shareholder meeting formats.
Corporate Responsibility & Accountability
Workplace Practices & Human Rights

Gender, Race/Ethnicity Pay Gaps

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<td><strong>Public Fund Advisory Services Recommendation:</strong> Vote case-by-case on requests for reports on a company’s pay data by gender or race/ethnicity, or a report on a company’s policies and goals to reduce any gender or race/ethnicity pay gaps, taking into account:</td>
</tr>
<tr>
<td>▪ The company’s current policies and disclosure related to both its diversity and inclusion policies and practices and its compensation philosophy on fair and equitable compensation practices;</td>
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<tr>
<td>▪ Whether the company has been the subject of recent controversy, litigation, or regulatory actions related to gender, race, or ethnicity pay gap issues;</td>
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<tr>
<td>▪ The company’s disclosure regarding gender, race, or ethnicity pay gap policies or initiatives compared to its industry peers; and</td>
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</tr>
<tr>
<td>▪ Local laws regarding categorization of race and/or ethnicity and definitions of ethnic and/or racial minorities.</td>
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Rationale for Change:
Public Fund Advisory Services is updating the policy language to clarify how Public Fund Advisory Services evaluates a company’s policies and practices compared to its peers. Public Fund Advisory Services also wants to highlight that some legal jurisdictions do not allow companies to categorize employees by race and/or ethnicity and that definitions of ethnic and/or racial minorities differ from country to country, so a global racial and/or ethnicity statistic would not necessarily be meaningful or possible to provide.
Mandatory Arbitration

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</tr>
<tr>
<td>▪ The company’s current policies and practices related to the use of mandatory arbitration agreements on workplace claims;</td>
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<tr>
<td>▪ Whether the company has been the subject of recent controversy, litigation, or regulatory actions related to the use of mandatory arbitration agreements on workplace claims; and</td>
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<tr>
<td>▪ The company’s disclosure of its policies and practices related to the use of mandatory arbitration agreements compared to its peers.</td>
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</table>

**Rationale for Change:**

A number of shareholder proposals on mandatory arbitration were filed in 2019 and 2020, and several of them have gone to a vote. The proposals have received increased support from shareholders, with one receiving majority support in 2020. Public Fund Advisory Services clients have expressed interest in a specific policy on this topic. As a result, Public Fund Advisory Services is creating a new policy based off ISS’ existing global approach on E&S shareholder proposals.

In recent years, with the rise in employment litigation, many employers have turned to mandatory arbitration agreements as a way to avoid lengthy and costly litigation processes, including class action lawsuits. They argue that arbitration is a quicker and more cost-efficient way of resolving employment disputes. In addition, since arbitrations are private, the proceedings and outcomes are confidential, which can conceal embarrassing matters from becoming public. They note that arbitration also helps relieve an overburdened court system.

On the other hand, those against the use of this practice argue that mandatory arbitration agreements preclude employees from suing in court for violations like wage theft, discrimination and sexual harassment, and which require them to submit to private arbitration. They point out that private arbitration has been found to favor companies and discourage claims. They also point to numerous legal developments, such as the bill to end mandatory arbitration of sexual harassment claims that passed in the U.S. House of Representatives in September 2019, California’s ban on the practice of requiring arbitration agreements as a condition of employment and Washington State’s law enacted in 2018 that invalidates contracts requiring arbitration of sexual harassment or assault claims. They argue that due to their private and contractual nature, arbitrating employment-related claims can allow a toxic culture to flourish, increasing the severity of eventual consequences and harming employee morale.
## Sexual Harassment

<table>
<thead>
<tr>
<th>Current Public Fund Advisory Services Policy, incorporating changes:</th>
<th>New Public Fund Advisory Services Policy:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public Fund Advisory Services Recommendation</strong>: Vote case-by-case on requests for a report on company actions taken to strengthen policies and oversight to prevent workplace sexual harassment, or a report on risks posed by a company’s failure to prevent workplace sexual harassment, taking into account:</td>
<td><strong>Public Fund Advisory Services Recommendation</strong>: Vote case-by-case on requests for a report on company actions taken to strengthen policies and oversight to prevent workplace sexual harassment, or a report on risks posed by a company’s failure to prevent workplace sexual harassment, taking into account:</td>
</tr>
<tr>
<td>▪ The company’s current policies, practices, oversight mechanisms related to preventing workplace sexual harassment;</td>
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<tr>
<td>▪ Whether the company has been the subject of recent controversy, litigation, or regulatory actions related to workplace sexual harassment issues; and</td>
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</tr>
<tr>
<td>▪ The company’s disclosure regarding workplace sexual harassment policies or initiatives compared to its industry peers.</td>
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</tbody>
</table>

## Rationale for Change:

Sexual harassment in the workplace is a serious form of employment discrimination with the potential for significant legal, human capital, and reputational costs to a company. Sexual harassment claims can damage a company’s reputation, alienate its employees and customers, and can be a marker for poor corporate governance.

A number of shareholder proposals filed on this issue in 2019 and 2020, and several have gone to a vote. The topic is high profile in nature and has garnered media attention. The proposals on this issue have received increased support from shareholders. Public Fund Advisory Services clients have expressed interest in a specific policy on this topic. As a result, Public Fund Advisory Services is creating a new policy on this particular issue based off ISS’ existing global approach on E&S shareholder proposals.
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