



OFFICE OF THE ILLINOIS STATE TREASURER  
MICHAEL W. FRERICHS

November 9, 2023

Vanessa Countryman  
Secretary Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549

*Via electronic mail*

Re: Corporate Board Diversity RIN: 3235-AL91

Dear Ms. Countryman:

The Office of the Illinois State Treasurer respectfully submits this letter to the U.S. Securities and Exchange Commission ("SEC") to comment on its consideration of a rule proposal related to corporate board diversity disclosure.

Decades of research has shown that corporations with diverse leadership teams – inclusive of gender, race, and ethnicity – outperform their peers<sup>1</sup>. There is consensus among a broad range of academics, industry specialists, and financial analysts that diverse boards create value.<sup>2, 3, 4, 5, 6</sup> A 2016 analysis from MSCI for example found that over a five-year sample period companies that added women to their boards had consistent correlations with stronger financial metrics.<sup>7</sup> Similarly, a 2012 Credit Suisse Research Institute report evaluated the performance of 2,360 companies globally over six years and found that companies with one or more women on boards

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<sup>1</sup> "Diversity Wins," McKinsey & Company, May 2020. Available at <https://www.mckinsey.com/~media/McKinsey/Featured%20Insights/Diversity%20and%20Inclusion/Diversity%20wins%20How%20inclusion%20matters/Diversity-wins-How-inclusion-matters-vF.pdf>

<sup>2</sup> Credit Suisse, "Gender Diversity and Corporate Performance", August 2012, available at:

[https://www.calstrs.com/sites/main/files/file-attachments/csri\\_gender\\_diversity\\_and\\_corporate\\_performance.pdf](https://www.calstrs.com/sites/main/files/file-attachments/csri_gender_diversity_and_corporate_performance.pdf)

<sup>3</sup> Yaron Nili, "Beyond the Numbers: Substantive Gender Diversity in Boardrooms," October 20, 2017, available at:

[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3117131](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3117131)

<sup>4</sup> David Larcker and Brian Tayan, "Diverse Boards: Research Spotlight," Standard Graduate School of Business, April 2016, available at:

<https://www.gsb.stanford.edu/sites/gsb/files/publication-pdf/qg-diverseboards.pdf>

<sup>5</sup> Thirty Percent Coalition, "Research and References," available at: <https://www.30percentcoalition.org/resources/referencesresearch>.

<sup>6</sup> Ouni, Z.; Ben Mansour, J.; Arfaoui, S. "Corporate Governance and Financial Performance: The Interplay of Board Gender Diversity and Intellectual Capital," November 16, 2022, available at: <https://doi.org/10.3390/su142215232>.

<sup>7</sup> "The Tipping Point: Women on Boards and Financial Performance," MSCI, December 2016.

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delivered higher average returns on equity, lower leverage, better average growth, and higher price/book value multiples.<sup>8</sup> A study by Morgan Stanley found that racial and ethnic diversity on corporate boards of large cap companies had a positive impact on stock price.<sup>9</sup>

Given this reality, the Office of the Illinois State Treasurer believes we have a responsibility to evaluate the level of diverse representation on our current and prospective portfolio company boards and voting our proxies accordingly.

Over time, we have taken several steps when it comes to voting our proxies and enhancing companies' board diversity disclosure. In accordance with our Proxy Voting Guidelines, we support proposals which increase transparency around diverse representation, increase levels of board diversity, gender pay gap reporting, and the inclusion of diversity as a performance metric for executive compensation.<sup>10</sup> In 2021, our Office amended our Proxy Voting Guidelines to further enable the Office to vote against nominating committees at companies that fail to disclose the gender and race/ethnicity of their board directors. Furthermore, the Illinois Treasurer maintains a policy to vote against nominating committees at companies that have less than two women directors. Our proxy voting policy clearly states, that:

*Other factors that will be considered when reviewing candidates will be the diversity of board nominees in terms of race, gender, experience and expertise (members of the nominating and governance committee of board of directors with fewer than two women will be held accountable)<sup>11</sup>*

In practice, this means that in 2022, the Illinois Treasurer voted against 1,182 directors on nominating committees for lack of gender diversity.<sup>12</sup>

Disclosure of comprehensive board diversity data remains a challenge, especially when it comes to the tangible practice of voting proxies in accordance with our proxy voting policy. For example, because racial diversity amongst leadership has been shown to impact company performance, we will evaluate on a case-by-case basis, voting against members of the nominating and governance committees of companies with no racial and ethnic diversity. However, due to the lack of reliable information and estimation required to currently to assess racial/ethnic diversity when not disclosed, this makes definitive evaluations difficult.

In addition to proxy voting, we are also a founding member of the Midwest Investors Diversity Initiative, which was formed in 2016. The Midwest Investors Diversity Initiative (MIDI) is a coalition of institutional investors, with over \$1 trillion in assets under management and advisement, dedicated to increasing racial, ethnic, and gender diversity on corporate boards of companies headquartered in Midwestern states given the correlation between diversity and long-term outperformance.

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<sup>8</sup> Gender Diversity and Corporate Performance," Credit Suisse, 2012. Available at <https://www.credit-suisse.com/articles/news-and-expertise/2012/07/en/does-gender-diversity-improve-performance.html>.

<sup>9</sup> "Does Ethnic Diversity on Corporate Boards Affect Stock Prices?" Morgan Stanley, 2022. Available at [Ethnic Board Diversity & Stock Performance | Morgan Stanley](#).

<sup>10</sup> "2023 Proxy Voting Policy Statement," Office of the Illinois State Treasurer. Available at [Illinois State Treasurer's Investment Policy \(usgovcloudapi.net\)](#).

<sup>11</sup> "2023 Proxy Voting Policy Statement," Office of the Illinois State Treasurer Michael W. Frerichs. Available at <https://illinoistreasurergovprod.blob.core.usgovcloudapi.net/twocms/media/doc/2023%20proxy%20voting%20policy%20statement.pdf>.

<sup>12</sup> 2022 annual report

MIDI offers guidance and tools to help companies take steps to diversify their boards, working with company nominating and governance committees to:

- Adopt a policy for the search and inclusion of minority and female board candidates;
- Require minority and female candidates to be interviewed for every open board seat;
- Instruct third party search firms to include such candidates in the initial pool;
- Expand candidate pools to include candidates from non-traditional sources; and
- Disclose the gender and race/ethnicity of individual board directors annually via a board matrix.

Disclosure of board diversity in matrix format has been a focus of the coalition for several years. The lack of standardized and comparable board diversity data makes it a challenge for MIDI to assess the appropriate companies to engage with on diversity best practices. When not disclosed, we view it as inappropriate to identify diversity categorizations of board members based on photographs and/or names on company's websites to determine board diversity levels.

Furthermore, data providers who provide aggregated diversity levels also typically use estimation in their assessment of diversity levels, or rely on information that is inaccurate or out of date. Therefore, if the SEC were to mandate board diversity disclosure in a standardized format, our work at MIDI would be significantly enhanced and refined.

As outlined above, the current disclosure framework does not meet our needs and is best characterized as disorderly and inefficient. There is no formal, standardized source of racial/ethnic data regarding board composition among U.S. listed companies, and so gathering this information requires us to spend crucial time, effort, and money to attempt to locate this data.

Given the objectives of the SEC to protect investors and maintain fair, orderly and efficient markets, we respectfully request that the SEC require all companies that trade on U.S. exchanges to disclose diversity metrics in the proxy statement or, if there is no proxy filing, in another appropriate document filed with the SEC, at a reasonable expense.

Additionally, we request that such a rule include provisions to advance transparency, such as:

- Disclosure based on voluntary self-identification; and
- Reporting that disaggregates data by gender and each major ethnic, racial and other major population segments, such as those required by the Nasdaq listing standard (i.e. "Board Matrix"), which enables investors to clearly ascertain the level of ethnic, racial and gender diversity among directors and facilitates comparability across companies.

The Office of the Illinois State Treasurer appreciates the SEC's consideration of these comments and would be pleased to discuss them in greater detail. If you have any questions or need any additional information, please contact Karen Kerschke, Deputy Director of Corporate Governance & Sustainable Investment, at [kkerschke@illinoistreasurer.gov](mailto:kkerschke@illinoistreasurer.gov).

Sincerely,



Michael W. Frerichs  
Illinois State Treasurer

cc by email:

Chair Gary Gensler  
Commissioner Hester Peirce  
Commissioner Caroline Crenshaw  
Commissioner Jaime Lizarraga  
Commissioner Mark Uyeda