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Dear Trustee Leader:

The following is a report on our union's efforts to expand retirement security in an unstable economic environment, and to suggest pension fund best practices for your consideration that are rooted in our fiduciary responsibilities to pension fund participants and beneficiaries. These tools and practices are designed to better serve the needs of our participants and beneficiaries, while providing them with additional benefits. In addition to the steps outlined below, you are invited to join a conference call on this topic; details are at the end of this letter.

Many of our fund trustees have asked what role there may be for them as fiduciaries to help address the racial and social justice challenges faced by our participants and beneficiaries. This letter summarizes steps trustees can and are taking to fulfill our ongoing duties as fiduciaries to our participants and beneficiaries in a manner that helps to address these issues. We urge you to continue working with SEIU's Capital Stewardship Program and to use these tools and others like them that may advance our shared commitment to our participants' and beneficiaries' continued well-being and to the ongoing delivery and, ultimately, improvement of their benefits.

We see tremendous opportunities for our funds to more fully reap the benefits of addressing racial justice, and other forms of diversity as a part of trustees' fiduciary duties to safeguard and appropriately manage the delivery of all benefits to our participants and beneficiaries. Current events, academic research, news reporting, market analysis and court actions have brought renewed attention to the living legacies of slavery and the ongoing struggle to overcome the systems and policies that disempower African Americans and other people of color.[1] In light of this, many of you have asked, as investors, employer of service providers, and fiduciaries, what opportunities exist for our funds to better succeed by making the most of improved governance policies and taking advantage of the many leadership skills and unexploited investment opportunities in communities of color. Our experiences indicate the vital role of affirmative effort in further increasing the benefits available from our funds. By adding diversity to our boards, ensuring adequate representation of minorities among our investment managers and other vendors, and using our investments to help ensure good and open corporate governance, we can better fulfill our fiduciary roles and enhance our service of the needs of our participants and beneficiaries. Here is a list of some of the best examples, and there are many more:

- **Use the Rooney Rule:** Trustees may direct investment consultants to utilize the so-called "Rooney Rule," named after the owner of the Pittsburgh Steelers, who established a process for seeking out a diverse pool of candidates to be interviewed for open positions. The rule does not dictate who should be hired; it does not mandate an outcome. It merely provides a process that allows for a representative set of candidates to be considered. For example, this might mean interviewing at least one qualified firm owned by a person of color, among others, when searching for a manager to oversee a particular investment mandate. The goal of this rule is to ensure our funds review all managers who may serve with excellence, and to ensure we do not allow latent biases or on-going conditions in the investment industry to unnecessarily limit the pool of candidates from which to choose or to limit the returns that may be earned by bringing in a less diverse pool of candidates.

- **Request data:** Trustees should request asset managers, auditors, consulting firms and other service providers report on the diversity of their management and staff teams; distinguishing programmatic staff from administrative/support personnel. Our experience indicates that the more successful service providers pay attention to the concerns and priorities of their clients and that asking for this data can lead to real progress in ensuring that service providers hire the best possible professionals and programmatic staff if they are hiring from a wider pool of candidates.

- **Implement a corporate governance program:** Our funds may enhance long-term value by ensuring the companies in which we invest are better managed. This may mean withholding votes from boards of directors that fail to perform on fundamental metrics, including a failure to understand and serve the full range of potential customers, such as communities of color. For example, funds may suffer lower returns if there is excessive investment in entities that divert shareholder assets to political campaigns and candidates that undermine affirmative action. This kind of diversion may reduce corporate earnings unnecessarily and result in reduced returns for our funds. The Massachusetts public pension fund votes against a company's board nominees if they choose to self-segregate by recruiting 75 percent or more of their directors exclusively from the community of white males[1], as important as their perspectives may be. A number of academic studies have documented the link between racial diversity and shareholder value. For instance, *Board of Director Diversity and Firm Financial Performance* found a significant positive correlation between gender and people of color representation on boards and both return on assets and return on investment.[2] Another study, *Demographic Diversity in the Boardroom: Mediators of the Board Diversity-Firm Performance Relationship* found a positive and significant relationship between racial diversity and innovation, reputation and firm performance.[3] While these studies do not dictate what investments must be

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1 http://www.masslive.com/politics/index.ssf/2015/04/new_massachusetts_pension_fund.html

2 Erhardt, Niclas L. and Werbel, James D. and Shrader, Charles B., Board of Director Diversity and Firm Financial Performance. Corporate Governance: An International Review, Vol. 11, pp. 102-111, April 2003. Available at SSRN: http://ssrn.com/abstract=416337

3 Miller, Toyah and del Carmen Triana, María, Demographic Diversity in the Boardroom: Mediators of the Board Diversity - Firm Performance Relationship. Journal of Management Studies, Vol. 46, No. 5, pp. 755-786, July 2009. Available at SSRN: http://ssrn.com/abstract=1410337

made, a fiducially responsible trustee might well be missing out on superior returns if such information were not included in screens used to evaluate potential investments.

- **Recruit and train the next generation of trustees:** We see numerous options to utilize the diverse talents of people or color and women to serve as trustees of our funds. This is not only an issue of fair representation; it is directly connected to investment performance. One of the cautionary lessons from the 2008 financial crisis is the role that groupthink played wherein homogenous decision-makers failed to properly consider risks and the full range of options for solving problems. Social science research on group decision-making suggests that racial diversity on boards counters the dangers of groupthink. For example, in their comprehensive working paper, *Diversity on Corporate Boards: How Much Difference does Difference Make?*, Deborah Rhode and Amanda Packel discuss that because people of color relate to both dominant and underserved groups, this provides bicultural fluency that may enhance decision-making."[4] Rhode and Packel also note that some studies, including the Demographic Diversity study by Miller and Triana cited above, have found that racial diversity is associated with a wider range of information networks as well as greater levels of creativity and innovation. Our funds should not be denied access to the full range of diverse views that may lead to better decisions.

The U.S. Department of Labor, in providing guidance with respect to the exercise of fiduciary duties at ERISA-covered employee benefit funds, has more than once advised that trustees should seek to maximize the risk-adjusted returns to their funds. With so much research showing how returns may be enhanced by paying special attention to diversity in the makeup of a board, diversity in the people hired by service providers, and diversity in the governance of entities in which funds invest, it is clearly of paramount importance that trustees promote reasonable efforts to consider these factors on an ongoing basis at our funds. This is not only consistent with the fiduciary duty of trustees of our funds, one can even argue that a trustee's fiduciary duty mandates making these efforts.

I look forward to our work together in support of your leadership as a trustee, and trust you will continue to work with SEIU's Capital Stewardship Program, to make the most of these opportunities. You are invited to join me, the Capital Stewardship Team, and Yvonne Walker, chair of the Retirement Security Committee, in a conference call to discuss ways of implementing these practices at your fund. The call will be held Thursday, Aug. 27, at 3:00 p.m. Eastern Daylight Time.

Please use the following link to register for the conference call. Upon registering, you will receive your individual call-in
http://myaccount.maestroconference.com/conference/register/1PMJG6U4V6CGO9IJ.
If you have any questions on how to register, please contact Tanya Aquino
tanya.aquino@seiu.org.

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[4] Rhode, Deborah and Packel, Amanda K., Diversity on Corporate Boards: How Much Difference Does Difference Make? (September 2010). Rock Center for Corporate Governance at Stanford University Working Paper No. 89. Available at SSRN: http://ssrn.com/abstract=1685615

Please contact Vonda Brunsting, vonda.brunsting@seiu.org, or Renaye Manley, renaye.manley@seiu.org, from the Capital Stewardship program with questions or for more information.

Sincerely,

Mary Kay Henry

Mary Kay Henry
International President