



## Top of the Agenda - Governance

### Q&A: Women on mutual fund boards

March 27, 2020

*It's Women's History Month and in honor of that, we gathered together independent mutual fund directors Janice Case from Thrivent Mutual Funds and Theresa Hamacher from Morningstar Funds and executive recruiter George Wilbanks to discuss women on fund boards. There are more women than ever serving in the country's mutual fund boardrooms, but they still make up less than one-third of all independent fund directors. Below, our three participants discuss what women can contribute to fund boards, the challenges associated with recruitment and inclusion, the best ways to practice and promote diversity in boardrooms and throughout the asset management industry, and more.*

*Case joined the Thrivent Mutual Funds board in 2011 and has chaired the Governance and Nominating Committee since 2012. She has more than 40 years of experience in the electric utilities industry, including 10 years as an executive officer of a Florida-based electric utility and holding company, and she served as an independent director for certain Transamerica funds from 2001 to 2007. Hamacher has been chair of Morningstar Funds since 2017 and served as an independent director for Calamos Mutual Funds for two years before that. She founded Versanture Consulting in 2015, and before that served as president of NICSA, as CIO of Pioneer Investment Management USA, and as CIO of Prudential Mutual Funds. Wilbanks founded Wilbanks Partners in 2011 after spending more than 20 years building the asset and wealth management practice at Russell Reynolds Associates to an industry-leading position.*

*Each of our three participants brought a unique perspective to this exercise, given their background, individual experiences, and the role they now play in fund governance. Here's what two directors and a recruiter had to say, at this point in time:*

#### **Q. Do women contribute something specific to a mutual fund board? Why is it important and desirable to have women in fund boardrooms?**

**Case (pictured, left):** What women bring to a mutual fund board—and to all boardrooms—is a diversity of thought and perspectives that can help represent the diversity of thought of our fund shareholders. We know that our shareholders are a mix of



gender, race, age ranges, and other backgrounds, all with different perspectives, and the addition of women can give an additional ear to those perspectives. In addition, because fewer of them are likely to have been CEOs than their male counterparts, women may bring more specialized skill sets to the board, including digital technology expertise, legal, [human resources], and compensation experience, or specific expertise in governance.

**Hamacher:** It's not that women bring a specific perspective, it's that they can bring a *different* perspective into the boardroom. Everyone's experiences are different, and those experiences influence each director's contribution to governance oversight. Having those experiences be as diverse as possible—along many dimensions (not just gender)—helps to ensure that the board's decision-making is as broadly informed as possible.

**Wilbanks:** Diversity in team decision-making is a key driver to more effective, efficient, and successful outcomes. (Further reading: [Why Diverse Teams Are Smarter](#), [The Decision-Driven Organization](#), [Is Gender Diversity Possible?](#))

**Q. Is it difficult to find female candidates for director positions, and is it necessary for boards to specifically target women during the recruitment process?**

**Case:** I believe you should still approach your search for board members in the traditional way: Identify the specific skills that are required for the board position (IT, cybersecurity, finance, accounting and audit, investment expertise). Then, once you've identified what you need, reach out to various professional organizations in those spaces to identify women who participate. I really don't believe you should just decide to add a woman to the board regardless of whether or not she fits your board's needs.



**Hamacher (pictured, right):** It's important for the board to have a diverse slate of candidates, which means that the slate will need to include a reasonable representation of women. I haven't found it difficult to find women candidates, but that's partly because I'm a woman, and other women have felt comfortable reaching out to me to discuss their interest in board service. In general, how easy it is to find women candidates depends on your own business network. You may need to reach out beyond your immediate circle to identify good referral sources. That takes effort.

**Wilbanks:** It is not difficult to find women for board roles. Specifically targeting women for a board role can actually be counterproductive in the very short run, limiting the pool of "best in class" candidates if other skills and knowledge (i.e., technology, risk

management, policy/regulation, etc.) are the most important requirements. Far more important is the long-term planning to allow the nominating committee the time to aggregate the information on strong prospects that are outside of their common field of social/peer knowledge networks, and then meet a significant and diverse sample of this field to determine candidate interest and culture fit. Given enough time and resources, fielding a highly diverse pool of prospects will usually lead to a significantly higher proportion of diverse hires. Nothing is more unattractive to highly successful mid-career female executives than the prospect of being the token diversity representative on a board that is resistant to change. (Further reading: [Diversity Doesn't Stick Without Inclusion](#), [Board composition: Key trends and developments](#))

**Q. How, specifically, has the recruitment process changed to allow for more female candidates and, ultimately, more female directors serving on boards? What further changes can—or should—be made to support continued progress on this front?**

**Case:** It is not difficult to find qualified women for director positions, but it is necessary to approach the search for women a little differently than in the past. Professional women are often involved in very different organizations than men, and a traditional search may not find them. Whether you use a search firm or not, you need to focus on the kinds of meetings and networking avenues that specifically attract women. And, more specific to mutual funds, there are industry trade association meetings that attract current female board members that allow for networking and the opportunity to ask for leads to qualified female potential directors.



**Hamacher:** Nominating committees seem to be extending the recruiting life cycle, which gives them more time to reach out beyond their own networks to more diverse communities. I'm also hearing that more boards are using executive recruiters to broaden the range of candidates that they talk to. More transparency might help accelerate the rate of change. Specifically, mutual funds could disclose statistics on the diversity of the board. Larger corporations are now doing this routinely, and mutual funds should follow their lead.

**Wilbanks (pictured, above left):** It is essential to expand the pool of prospects outside the normal business and social networks of the existing board members. This process requires a surprisingly substantial time commitment from board members. It is not only about developing a highly qualified list of names but also entails taking the time to meet candidates in person, adapt to different communication styles and points of view, and successfully integrate and adapt the culture of the existing board to the diverse perspectives available. Good governance practices are challenging and extremely time consuming. (Further reading: [Independent Director Recruiting: Best Practice Review](#), [Transforming the Board Recruitment Process](#))

**Q. The percentage of women on boards has risen steadily over the years, reaching 28% in 2018—up from 27% in 2017 and just over 22% in 2014; is it high enough yet? If not, how do we get it higher?**

**Case:** One idea has been to understand the makeup of your shareholders/stakeholders, then target your board diversity goals to reach those percentages. For example, if you know that 30% of your mutual fund shareholders are women, that would be a good goal to set for your board composition.

**Hamacher:** In an ideal world, the fund director community would be similar to the population as a whole—and the shareholders we serve—and we're not there yet. I was reading a recent study of boardroom trends, which noted that with each year, new board members have become increasingly diverse. The problem is that there are so few new directors, given the low rate of turnover on boards. Increasing turnover might be the fastest way to increase diversity.

**Q. Are women given the same opportunities in the boardroom once they begin serving (committee and board chair positions and other leadership roles)? How can boards make sure that a diverse set of directors all feel included and able to contribute effectively?**

**Case:** I believe that women are being given important assignments in the boardroom based on various reading and meetings that I've attended. When I joined the Thrivent Mutual Fund boards, there were two women on the board, and within a year, I was asked to chair the Governance and Nominating Committee. I think that if you target your board search for exactly the skillsets that your board needs, and if the successful candidate is a woman, then she will quickly move into a leadership position/committee chairmanship.

**Hamacher:** The data that I've seen suggest that women are underrepresented as chairs/lead directors and as audit chairs, but not as nominating/governance chairs. The underrepresentation in the audit chair position is particularly stark, so it needs special attention. In my anecdotal experience, women who aren't CPAs are often hesitant to put themselves forward for the audit committee, even if they have the appropriate financial oversight experience. Additional education for potential directors around the nature of the audit role and the qualifications required of an audit committee financial expert might help close this gap.

I'm so glad that you asked the question about inclusion! So much of the focus has been on diversity in recruiting, without thinking specifically about how those diverse directors will work together in the boardroom. The Morningstar Funds Trust board developed a statement about the type of board environment we would like. This statement is included in our board policies, which are available online. It is:

In all the board's activities, the trustees are committed to a culture of transparency, collaboration and inclusion, where open and candid dialogue is the norm and where every voice is valued. This culture is designed to create a board environment that fosters rigorous decision-making.

We believe that having a public statement of intent gives us a standard to measure our performance against.

**Wilbanks:** Adjusting to different communication styles and points of view and successfully integrating and acclimating the culture of the existing board to the diverse perspectives available is challenging and extremely time consuming. Leadership from the top is essential. The chairperson must ensure that every voice has equal weight and value. The nominating and governance committees must use annual assessment exercises to educate and assist board members who are slow to adapt, and they must eventually ask those resistant to change to "leave the island." Many companies are aggressive at dropping the bottom decile performers annually in a continuous improvement methodology, but I have almost never heard of boards using the same tools. (Further reading: [Board Self-Assessments](#))

**Q. Are racial and other forms of diversity in the boardroom also important? Are there challenges related to racial diversity that are different from those associated with gender diversity, and how difficult are those challenges to overcome?**

**Case:** Achieving racial diversity does seem to be more difficult, and one factor is the huge demand for racially diverse candidates. I suspect that we probably haven't done a good enough job sourcing those candidates from the organizations in which they participate and can be found. Again, I think it takes a better search process.

**Hamacher:** All kinds of diversity are important, not just gender and racial diversity. In general, the biggest challenge that boards face in increasing diversity is that they have so few positions available. As a result, boards need to think carefully about goals, recruiting approach, and creating a culture that allows diversity to thrive. One reason that gender diversity is getting more attention recently may be because it's easier to track. To promote diversity along other dimensions, we need more transparency, in the form of board self-reporting of diversity statistics.

**Wilbanks:** Though it has yet to gain significant traction in the mainstream media, economic or socioeconomic diversity is probably the most important driver of better team decision-making. Because it is difficult to measure, other diverse cohort measurements such as race, nationality, geography, and educational background are productive ways to assess success toward this more elusive goal. (Further reading: [Why Companies Should Add Class to Their Diversity Discussions](#))

**Q. Is there enough diversity at the management companies, law firms, and service providers? When hiring or approving a service provider, should the fund board consider the diversity of a firm's employees? Does the fund board have a responsibility to advance diversity in general and in the investment management in particular?**

**Case:** I think a fund board should generally concentrate on their duties and vigorously oversee the code of ethics for service providers.

**Hamacher:** There's strong evidence that diversity is positively associated with investment performance, so boards should be having a discussion about the value of promoting diversity in industry. The Morningstar Funds Trust board is still considering how we can most effectively do this, but we've begun asking about diversity in our interactions with service providers, including sub-advisers. We expect to talk more about our approach at an upcoming board meeting.

**Wilbanks:** The same principles of better decision-making and problem solving, leading to more successful and profitable operations, are equally applicable to the board, the management company, and all their vendors. This should be an underlying, but not overriding, consideration in every board directive or decision. (Further reading: [The inclusion imperative for boards](#))

## Q. What does the ideal fund board look like?

**Case:** The ideal board should have the necessary skillsets to get the overall work of the board accomplished (as identified through a formal process by the board) and should consider the shareholder makeup as an overarching goal for diversity. Each board is different—a board tasked with the oversight of index ETFs may need a somewhat different set of skills than one overseeing actively managed mutual funds. Some things are the same, but in some cases very specific skillsets are desirable.

**Hamacher:** I would define the ideal board in terms of process, rather than composition. If a board has a strong process that truly values diversity along all dimensions, then I have faith that it will lead to a diverse board. Whether that diversity is achieved sooner or later is another question, given the turnover constraints that have been mentioned.

**Wilbanks:** At a minimum, the demographics of the ideal fund board would match the composition and profile of its clients and society at large. It is always important to stay focused on the board's paramount goal, which is to function as an effective decision-making team that is able to provide insightful and timely guidance to senior management and effectively administer regulatory requirements.

