May 19, 2020

BoardIQ

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Trusted Intelligence for Fund Boards

Board Diversity Still a Priority, but Numbers Stay the Same

The number of men of color and women of any color remained largely unchanged on fund boards in the last two years, *BoardIQ* found in its latest reader survey on the topic. And as in 2018, respondents said they rely mainly on their own networks to fill empty seats — a method that often results in candidates who look like existing members even if the board champions the idea of diversity.

Diversity has been a focus for fund boards in recent years, and those that have appointed diverse candidates say their boards perform better because of it.

"Diversity has shifted from a philanthropic discussion about 'it's the right thing to do' to one that's in the economic realm: it's the profitable thing to do," says George Wilbanks, founder of executive search firm **Wilbanks Partners**. "Diverse cohorts make better decisions and, by default, in the professional setting, more profitable decisions."

With the pandemic complicating hiring, some say it's important for directors to keep that in mind and think creatively about how to continue casting a wide net in the search for candidates. Some boards are already doing so and thinking of ways to understand whether candidates are a good fit for the board even if they can't meet in person.

BoardIQ's survey collected responses from 88 readers, primarily independent directors, in addition to a few '40 Act attorneys and executives. The unscientific survey asked for information about readers' attitudes about diversity and the composition of their boards. It was conducted at the beginning of the year.

As in 2018, the majority of respondents said they agreed to some extent

Priority continued on page 10

At Mercer Funds Board, Diversity Begets More Diversity

When the **Mercer Funds** board set out last year to recruit two new directors, the group was by most definitions already diverse. Two of the three independent directors were women, and one of those was a Latina.

Today, it's even more diverse after adding a Hispanic man and a white woman within the past seven months.

"We believe when you have a diverse board in terms of ethnicity, background and gender that you're going to get a better solution to questions and problems," says Gail Schneider, the Mercer board's nominating and governance committee chair. "You're going to get a wider perspective because people come to it from their own lens."

Fund boards across the industry have focused to varying degrees on diversity in their own ranks. Many directors say they're acutely aware of the issue and would like to transform their board's makeup to include more men of color and women of any color.

Some have had more success at that than others. About 24% of readers who responded to a recent *BoardIQ* survey on fund board diversity said the number of women or racial minorities on their board rose in the past year. That's a 3-percentage-point increase from a similar reader survey conducted in 2018. This year's unscientific survey garnered responses from 88 directors, fund executives and board counsel.

And a review of new directors who've joined boards since the start of 2019 shows at least half a dozen groups have added a woman or racial minority member or both. Those boards include **Delaware Funds**, **EQ Advisors Trust**, **Goldman Sachs** and **Northern Funds**. (Independent chairs of those boards either declined to comment or did not respond to requests to discuss their push to further diversity.)

But progress has not been consis-

Mercer Funds continued on page 7

IN THIS ISSUE

BoardIQ

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California Board Diversity Law Forcing Changes for Some

California enacted a law in 2018 requiring every public corporation headquartered in the state to have at least one woman on its board of directors — the first of its kind in the U.S. mandating gender diversity. While the law doesn't directly apply to most fund boards, it has had a direct impact on at least some investment trusts.

More importantly, experts say the law has advanced the discussion of gender diversity on fund boards, which proponents and studies say correlates with improved corporate and board performance. That discussion seems set to continue, with the number of fund board seats filled by female directors slowly increasing over time, in California and across the industry.

The law, known as SB 826, received then-Gov. Jerry Brown's signature in September 2018. It required all publicly traded companies that are headquartered in California to have at least one female director by the end of last year and to have at least two or three — depending on the board's overall size — by the end of 2021.

The law doesn't specifically mention mutual funds or other investment vehicles, but it's clear from its language that it's not meant to apply to fund boards, even those that are based in California, multiple experts agree. It likely does apply to certain publicly traded closed-end funds and business development companies, however.

The law has already had some effect on the fund world, according to finance professors who have studied it. Daniel Greene and Vincent Intintoli, both of Clemson University, and Kathleen Kahle of the University of Arizona co-authored a research paper, published in February in the *Journal of Corporate Finance*, that examined the expected cost of compliance and other issues related to the legislation.

The study's data set included 31 firms classified as real estate investment trusts, which Greene believes would fall under the law's purview as closed-end funds. Of those 31 firms, "seven had all-male boards in 2018 and thus needed to add a female director by the end of 2019," he says in an email interview.

In January, shortly after the law's first deadline had passed, the authors followed up their study by examining firms that weren't in compliance as of 2018. Each of those seven REITs with all-male boards had added at least one female director by this year.

Industrywide, about 24% of independent fund directors are women, according to data maintained by *BoardIQ*. Indeed, the lack of gender diversity on fund boards remains a real issue, experts say.

"The fund industry has both structural and behavioral impediments to advancing female (and minority) participation on boards," **Thompson Hine** partner JoAnn Strasser says via email. The structural component is the "lack of turnover" on fund boards, she says. The behavioral aspect is the tendency of fund directors, when there is turnover on their board, to plumb their own professional networks to find candidates for the opening.

"Those business associates may be wonderful people and highly qualified, but they are likely to look very much like the current board," Strasser says. "Unless someone on the board or the management team takes a leadership role in shaping the discussion, and demands a serious commitment to diversity, the board will fall back to old habits and select another white male candidate."

That's the impetus for laws like the California one. And there are signs that such external influences aren't merely having direct effects. More than that, experts say attitudes are changing and were changing even before the law.

"This is a generalization, and every board is different, but as a general matter, the discussion about there being more women on corporate and fund boards had been going on for a number of years before the California statute was enacted," says Mark Perlow, a partner at **Dechert**. "I think it's fair to say that most fund boards, and most corporate boards, recognize the importance of having women directors and had already taken steps to recruit, nominate and elect women directors."

But, he adds, "The statute was intended to have, and appears to actually have had, a catalyzing effect on the debate about women serving on all types of boards — corporate, non-

California Board continued on page 12

Editor's Note: Much of this issue is dedicated to fund board diversity, a topic that continues to be a focus for many directors. It includes results of a reader survey conducted earlier this year and separate polling about the state of diversity on boards of the industry's largest fund groups. We hope you find these articles and graphics useful.

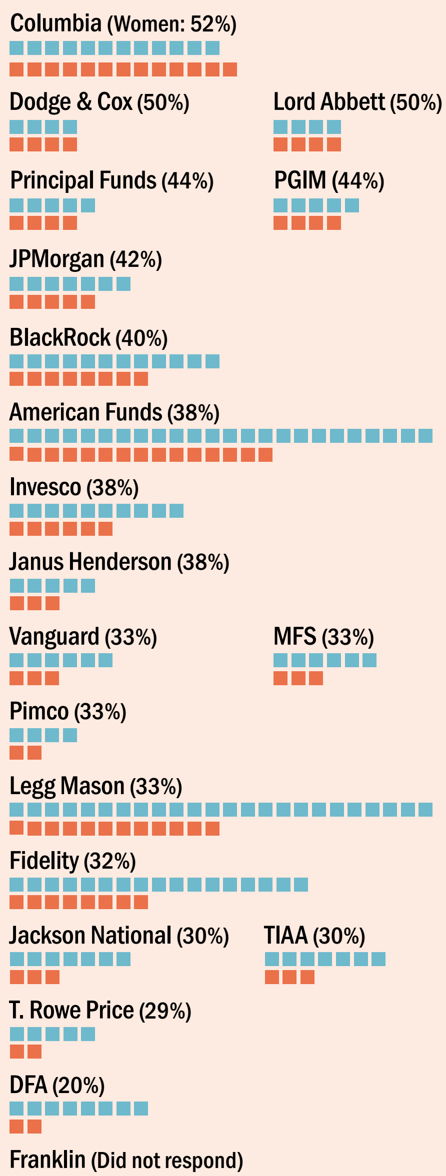
Director Diversity: Women and Minorities on Boards

Some 78% of fund directors believe the ideal board has racial and gender diversity, according to a survey conducted by *BoardIQ*. But that belief has not yet translated into widespread reality. About a quarter of directors industrywide are women, about the same share as corporate directors for Russell 3000 Index companies. However, racial diversity on fund boards of large complexes lags behind the boards of large U.S. firms, *BoardIQ* found.

INDUSTRY LEADERS

Most of the 20 largest fund complexes shared data about the gender diversity of their independent directors. As a group fund directors were more diverse than those overseeing large companies.

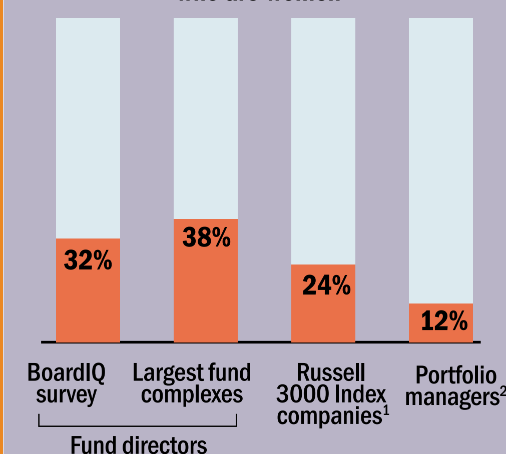
Number of independent directors



WOMEN IN THE BOARDROOM

Filings show 24% of fund directors industrywide are women, according to a *BoardIQ* analysis. The share of female directors is higher on boards of readers who responded to the survey and the largest fund complexes.

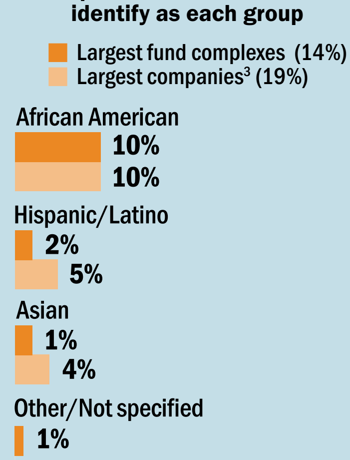
Proportion of population who are women



RACIAL BREAKDOWN

At least 14% of independent directors identified as a racial minority or person of color, according to data from most of the 20 largest fund complexes.

Proportion of directors who identify as each group

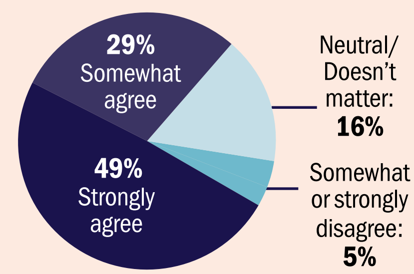


VIEWS ON DIVERSITY

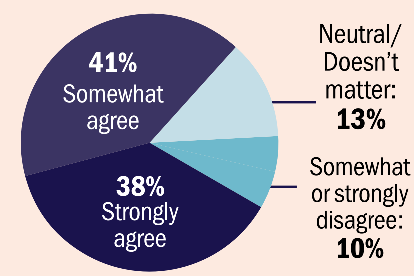
Most mutual fund directors believe that diversity is important and that boards with members of different backgrounds do well.

How much do you agree or disagree with the following statements?

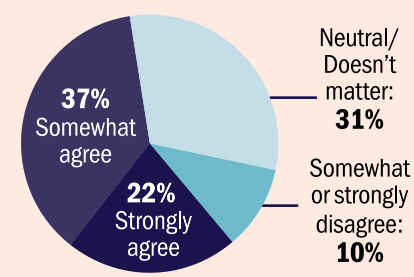
The ideal board has racial and gender diversity



My board considers it a priority to seek out diverse candidates



Boards with diverse candidates are more likely to perform well



Fund director data include only independent directors. Certain survey answers were verified via fund filings. To determine the gender and racial makeup of the largest fund complexes, BoardIQ contacted the 20 largest fund complexes by assets. All except Franklin provided data. Fidelity, DFA, Franklin and BlackRock did not provide racial minority data.
[1]Russell 3000 Index data are from 2020 Women on Boards. [2]Portfolio manager data are from Flowspring and include managers of open-end U.S.-domiciled mutual funds and ETFs.
[3]Data are for the 200 largest companies in the S&P 500 Index as analyzed by Spencer Stuart.

Active Analysis: Boutiques Beat Fund Giants on Sales

Several boutique fund shops outpaced industry giants on active fund sales during the volatile start of 2020, according to a *BoardIQ* analysis of data from **Morningstar Direct**.

The top-selling shops during the first quarter collectively held 4% of the $10 trillion in active funds as of March 31, the Morningstar data show. The biggest bleeders, meanwhile, held 53% of those active assets.

The 10 fund families with the largest quarterly net redemptions, which include the seven biggest mutual fund complexes, collectively lost $155.2 billion from their active portfolios, the data show.

The firms, including **Fidelity**, **Vanguard** and **Pimco**, extended their losses in April with net redemptions of $14.2 billion from their active lines.

The 10 top-selling fund complexes, meanwhile, added $12.6 billion to their actively managed mutual fund lines during the first quarter, the data show. The firms, eight of which had less than $20 billion in such assets, brought in another $5.7 billion in April.

Industrywide, investors pulled $289 billion from active mutual funds between Jan. 1 and March 31, the database shows. Another $24.6 billion was redeemed in April.

"Boutiques might have a more concentrated, more stable and a high-advocacy client base in the sense that they're not panicking. They're not buying and selling," says Matthew Fronczke, director of strategic business consulting at **SS&C Research Analytics and Consulting**.

Plus, funds at smaller shops are often not where the bulk of clients' assets are held. Groups like Vanguard, for instance, tend to offer products investors keep in their core portfolios, but products run by boutiques are more specialized, he says.

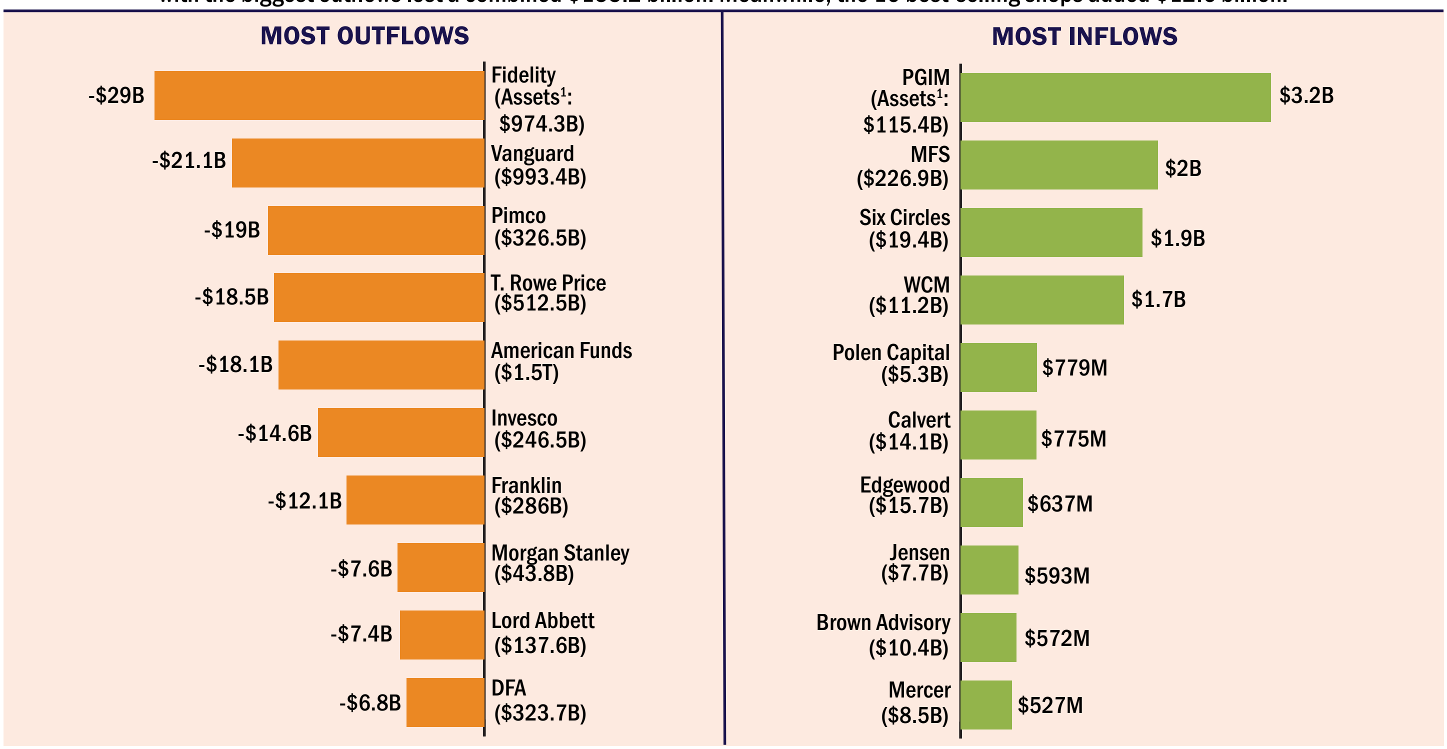
"Those core portfolios, whether it's on equity or fixed income, are the ones that are being shaken up," Fronczke says.

As investors did the shaking in the first quarter, responding to volatility spurred by the coronavirus and oil price crash, fund directors have had to assess advisers' strategy for dealing with price fluctuations, liquidity and

Active Analysis continued on page 6

Flows to Active Funds During First Quarter 2020

Actively managed mutual funds bled $289 billion during the first three months of the year, Morningstar Direct data show. The 10 fund families with the biggest outflows lost a combined $155.2 billion. Meanwhile, the 10 best-selling shops added $12.6 billion.



Source: Morningstar Direct. Data include only actively managed open-end mutual funds, not ETFs, money market funds or funds of funds. [1]Assets are as of March 31.

Active Analysis continued from page 5

market exposure.

The S&P 500 dropped 20%, and the Dow Jones Industrial Average plummeted 23% during the first quarter. Partly in response to the decline, investors pulled $107.1 billion from active equity funds during the period — 37% of the total outflows from active lineups.

In general, equity funds created greater gains for the best-selling fund complexes than fixed-income funds. Similarly, stock funds generated less in losses for the biggest bleeders than bond funds.

Fidelity was an exception. The shop reported net redemptions of $29 billion from its active lineup in the first quarter, the most of any fund shop. Equity funds accounted for 61% of the outflow. The firm's $98.4 billion **Contrafund Fund** lost $5.5 billion alone, the most of any active equity product.

"Consistent with the rest of the industry, we saw a shift in assets in March, driven mainly by investors who rebalanced portfolios from fixed income into equities or those who moved into safer assets, including money market funds," a Fidelity spokeswoman says.

Across the industry, money market funds added $693.7 billion during the quarter, according to Morningstar.

A bright spot for equity portfolios was ESG funds. U.S. sustainable funds collected a record $10.6 billion in flows during the first quarter, according to an analyst note from Jon Hale, head of sustainability research for Morningstar.

The ESG shop **Calvert** was the sixth best-selling complex during the first quarter. The firm held $14.1 billion in active mutual fund assets as of March and collected $516.5 million in inflows to its U.S. stock funds during the first three months of the year.

"Investors' interest in responsibly invested strategies has continued through the pandemic and resulting market volatility," writes Anthony Eames, director of responsible investment strategy at Calvert, in an email.

"Calvert has disproportionately benefited from these trends as investors have sought an experienced ESG manager focused on competitive performance and positive global impact. We, too, are experiencing record flows," Eames says.

Just 88 fund complexes recorded inflows to managed fixed-income funds during the first quarter, compared to 187 firms that posted outflows, Morningstar data show.

Nearly half (48%) of all active net outflows came from bond funds, which lost $138.9 billion during the quarter. Investors fled bonds not backed by the U.S. government until March, when the Federal Reserve stepped in to buy Treasurys, mortgage-backed securities, municipal bonds and corporate bonds.

The Fed's intervention shored up the fixed-income market. And in April, taxable bond funds added $4.4 billion, compared to March, when they reported $169.5 billion in outflows, according to Morningstar. Redemptions also improved for municipal bond funds. Those products bled $2.9 billion in April, or 7% of what they lost the month prior.

Pimco's fixed-income lineup shed the most in the first quarter: $18.9 billion across taxable and municipal bond funds. The shop leaked another $1.5 billion from its bond funds in April. The losses were largely concentrated in taxable bond funds.

"Pimco's defensive positioning and liquidity management enabled us to navigate unprecedented market volatility in March that impacted virtually every segment of the asset management industry," a company spokesman writes in an email. "We now see some extremely attractive long-term value in higher quality segments of the investment-grade credit and mortgage markets as well as in more resilient areas of emerging markets."

On the other end of the spectrum, **PGIM** ushered in the largest inflows to managed fixed-income funds during the first quarter. The complex's $77.4 million loss in municipal bond funds was more than offset by the $4.2 billion gain in taxable bond funds.

"We're pleased that demand is continuing through this time of volatility," president and CEO Stuart Parker says in email.

Active fund managers might have a hard time pulling investors into fixed-income products going forward, says Jeff Tjornehoj, director of fund insights at **Broadridge**.

"Muni bond fund investors may have a long memory about what happened in March, and they could take longer to get back in because there's still a lot of uncertainty about state and local government revenue," Tjornehoj says. "There's a good case to be made that there's more uncertainty in certain pockets of the fixed income market than there is in equities."

Across asset classes, the market volatility has created an environment for active shops with bold strategies to pull in investors who want to outpace index funds, Tjornehoj says. "The time is now for active managers to show their advantage," he says. ■

Mercer Funds continued from page 1

tent throughout the industry. There are still about 40% of fund boards without any women on them, according to data maintained by *BoardIQ*. And the reader survey, conducted earlier this year, found some 55% of respondents' boards have no members who identify as racial minorities, a figure essentially unchanged from the 2018 survey.

Obtaining a true sense of racial minorities' representation on fund boards is elusive. Fund boards must disclose whether they consider diversity during the hiring process, but not how, or disclose their racial makeup, and some complexes won't share it when asked. A spokeswoman for **BlackRock**, which uses its considerable heft as an institutional investor to push for diversity on public company boards, told *BoardIQ*, "We aren't able to provide this data," when asked if there were any people of color on BlackRock's fund boards.

> **"Definitely having diversity on your board makes it easier to have more diversity on your board. There's no question about that."**
>
> **Adela Cepeda**
> Independent chair
> Mercer Funds

Fidelity likewise would not reveal the racial diversity of its fund boards, nor would some other of the industry's largest complexes, such as **Franklin** and **Dimensional Fund Advisors**.

To Mercer's board and adviser, however, diversity is not a taboo topic that can be discussed only behind closed doors. When management launched the funds in 2005, it asked Adela Cepeda, a Latina, to be an independent director.

"I think they were deliberate about that," says Cepeda, now independent chair. "They wanted to have diversity on the board from the first moment."

The adviser has a culture of diversity and inclusion, Schneider says, and the board wants to be in sync with that. So it is no surprise that, when directors of the $9.6 billion complex decided to expand the size of their board, finding a diverse pool of candidates was a big factor in their search.

Schneider and Cepeda stress that the board's interest in diversity did not diminish their focus on finding the best qualified directors with the skills they wanted. And while they considered hiring an outside consultant to help with their search, directors decided to first seek candidates from their own networks and solicit recommendations from service providers such as board counsel and the fund accountant.

The board wanted those who passed along names to have a strong connection to the candidate and believe that the person would fit in well with existing directors, Cepeda and Schneider say.

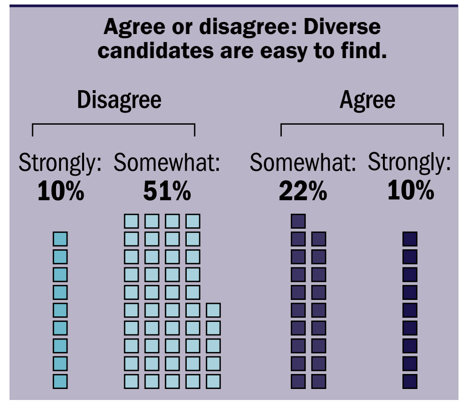
"This was going to be a big move to go from three directors who had worked together for about 10 years to five [directors]," Cepeda says.

Some 70% of the publication's survey respondents said they use fellow directors' or the advisers' networks to find diverse candidates, the most popular choice among four options. Some have warned that using such a method can be limiting, particularly if a board is made up of white men whose networks tend to look like themselves. But in the Mercer board's case, the diversity of its members had the opposite effect.

"Definitely having diversity on your board makes it easier to have more diversity on your board," says Cepeda, also an independent director with **UBS Funds** and Morgan Stanley's **Pathway Funds**. "There's no question about that."

HELP WANTED

The majority of directors who responded to *BoardIQ*'s survey said it was at least somewhat difficult to find diverse candidates for their boards.



Source: BoardIQ *survey. Based on 88 responses. Six respondents (7%) were "neutral" on the difficulty of finding diverse candidates.*

The Mercer board reviewed about two dozen résumés, which included about 30% diverse candidates, and narrowed the list to fewer than 10, Schneider says. Directors were prepared to expand their search to organizations such as the Latino Corporate Directors Association and other groups if their initial outreach did not provide enough diverse candidates, she says.

Directors on many boards say finding diverse contenders is a primary impediment to hiring them. About 61% of *BoardIQ*'s survey respondents somewhat or strongly disagreed with the idea that diverse candidates are easy to find. And 15% said in response to another survey question that their

Mercer Funds continued on page 12

Industry News Roundup

Rebalance Delay Will Cost Invesco $105M

Invesco will pay about $105 million to compensate investors in two S&P tracker funds that rebalanced five days late last month.

The firm's $5.6 billion Equally Weighted S&P 500 and its companion variable annuity portfolio missed out on performance gains owing to the delay, but the repayment will make investors whole again, according to a regulatory filing.

"The company will seek reimbursement under applicable insurance coverages," the filing said.

S&P Dow Jones Indices had notified investors in March of plans to reschedule its index rebalancings, but the Invesco operations team running the fund neglected to update positions April 24 when the S&P rebalanced, Invesco said in the filing. The team didn't catch the error or implement the rebalancing until April 29.

Invesco's second largest ETF, the $10.5 billion S&P 500 Equal Weight ETF, tracks the same index. That fund is managed by a separate operations team that did rebalance on time.

The payment will appear on Invesco's second-quarter results and is not expected to have a material impact on its financial strength or financial condition, the firm said.

TIAA to Offer Buyouts to 75% of Staff: Report

TIAA will offer buyout packages to three quarters of its employees, *Business Insider* reports.

The voluntary buyouts will be available to all employees deemed nonessential, according to unnamed *Business Insider* sources said to have direct knowledge of the offer.

The offers were floated in an all-staff call. A TIAA representative confirmed to the publication that the firm has presented employees with a "voluntary-separation program."

"As we navigate through these unprecedented times, we are exploring a variety of measures to reduce costs while managing our business and continuing to serve our clients," the spokesperson told *Business Insider*.

The offers include 45 to 91 weeks' salary, depending on tenure; 100% of last year's cash bonus; up to 18 months of health insurance; and six months of outplacement assistance, the TIAA official said.

Eligible staff will have until mid-July to accept the offer and will be approved or denied by Aug. 3, according to an internal email viewed by *Business Insider*. Those who are approved will leave Nov. 2.

TIAA employs about 16,500 globally.

Donnelley Lays Off 51 Employees

Donnelley Financial Solutions laid off 51 employees during the first quarter, a recent regulatory filing shows.

Most of the workers were cut by March 31, the firm's quarterly report says. Those layoffs resulted in a restructuring charge of $1.6 million.

About $800,000 of the costs came from the firm's compliance and communications management business, $600,000 from the firm's software solutions unit and $200,000 spent in corporate, the filing says.

Donnelley's compliance and communications management unit includes tools that allow investment managers to file regulatory reports on the Securities and Exchange Commission's Edgar system. It also prints and distributes paper forms for investors. The software solutions service unit, meanwhile, seeks to help firms compile data that it can use to draft documents and analyze contracts.

In all, Chicago-based Donnelley had 2,900 employees as of Dec. 31, according to its latest annual report.

In 2019, the company shed 271 jobs, the annual report says. The year before that, the company laid off 89 employees. And in 2017, the company handed pink slips to 192.

Company representatives did not respond to a request for comment.

The firm does not expect business to improve this year, executives said earlier this month during a first-quarter earnings call. In fact, total sales fell by 3.8%, to $220.7 million, compared with the first quarter of 2019. Tech-enabled services, software solutions, and print and distribution all saw sales declines from the year prior.

The coronavirus pandemic disrupted operations at some financial printers, the Investment Company Institute said last month. Social distancing measures reduced the number of employees who could work on machines, which stalled the production of fund communication and slowed down mail delivery.

And the Securities and Exchange Commission's e-delivery rule could hurt business further, Donnelley CEO Dan Leib said on the call.

Starting next year, funds can deliver shareholder reports and other communications to clients electronically by default. This will reduce the firm's revenue by up to $140 million per year, Leib said during the call.

Catalyst to Settle Investor Claims for $3.3M

Catalyst Capital Advisors will pay $3.3 million to settle investor claims over losses suffered by its Hedged Futures Strategy fund, after settling in January with the Securities and Exchange Commission.

The plaintiffs' firm sent a summary notice of the pending settlement to the class earlier this month, and the settlement terms received preliminary approval in a Central Islip, N.Y., federal court order in March.

In late January, Catalyst and fellow defendants agreed to a $10.5 million settlement with the SEC without admitting or denying the alleged '40 Act breaches.

Hedged Futures Strategy, which was renamed in January as the Catalyst/Warrington Strategic Program Fund, shed 20% of its value in late 2016 and early 2017 when its bearish bets backfired. Both the SEC and investor plaintiffs accused it of failing to follow its stated risk-management strategy limiting losses.

Prior to the losses, the fund had more than $4 billion in assets. Today, assets are down to $151.3 million.

Other defendants in the investor lawsuit include Mutual Fund Series Trust, Northern Lights Distributors and Catalyst president and CEO Jerry Szilagyi.

The fund's former senior portfolio manager, Edward Walczak, was not a party to the SEC settlement and is fighting the regulator's charges. The investor plaintiffs had originally included Walczak among their defendants but voluntarily dismissed him from the complaint last year.

A hearing on the settlement is scheduled for Sept. 3.

Shops Cite Covid to Press SEC on Derivative Rule Changes

Limits on leverage in the Securities and Exchange Commission's draft derivatives rule are too strict and could impair constructive ways funds use those strategies, shops say.

In some cases, funds would have to de-register because they would not be able to comply, the firms add.

And the proposal's impact may be greater than the agency anticipated in November, when the release was published, according to an Investment Company Institute analysis.

The SEC used year-end 2018 figures to conclude that 0.04% of relevant funds would fail to meet its proposed leverage threshold. But when examining how funds performed during the Covid-19-fueled market volatility, about 16% would have fallen out of compliance with the SEC's draft rule, the ICI says.

The proposal seeks to limit fund leverage by requiring products to benchmark their holdings against an index, which would be chosen based on the fund investments' market or asset classes.

The fund would conduct a relative value-at-risk test. The results of the VaR test could be no more than 150% of that market index's VaR.

If a fund could not pinpoint an appropriate reference index, the fund would need to pass an absolute VaR test. Under that lens, the fund's VaR couldn't exceed 15% of its net assets.

But BlackRock, Capital Research and Management, Franklin Resources, T. Rowe Price, Vanguard and the ICI say the upper parameter of the VaR test is too low.

The relative VaR test should be capped at 200%, while the absolute one should be as high as 20%, they say.

The VaR test seeks to measure "expected potential losses of a fund's portfolio," says Ken Fang, ICI's associate general counsel. Plus, he adds, it takes into account all holdings, not just derivatives. And the VaR may swing higher during certain market conditions.

As a result, a fund could have a high VaR even if it doesn't hold any derivatives, Fang says. For example, an emerging-markets fund will likely have a higher VaR than a bond fund, because its holdings are inherently more susceptible to volatility, Fang says.

Since the proposed rule's VaR parameters are too narrow, many funds will get unnecessarily tripped up in the rule's provisions, shops say.

MassMutual Offices to Remain Closed Until Labor Day

MassMutual employees won't be returning to their offices until at least Labor Day, the *Boston Business Journal* reports.

"We're going to err on the side of being cautious and slow," CEO Roger Crandall told the *Business Journal* in an interview.

Currently 98% of the firm's employees are working from home, Crandall said. The remaining workers check in to the office periodically in part to collect premium checks sent in by policyholders.

That arrangement has worked well and will likely remain in effect until the fall, if not later, he said. Employees were informed of the Labor Day target in a companywide Zoom call.

MassMutual will be especially cautious about reopening

Industry News Roundup continued on page 11

Priority continued from page 1

that the ideal fund board has both racial and gender diversity. About half said they strongly agreed with that statement, and 29% said they somewhat agreed. Just 5.7% said they disagreed to some extent. About 16% of respondents said diversity didn't matter or that they were "neutral" about it.

In a similar vein, they also agreed to some extent that their board prioritizes seeking diverse candidates. About 38% said they strongly agreed that it did, and about 41% somewhat agreed. Nine percent disagreed to some extent, and roughly 13% said they were neutral about it or that it didn't matter. Those results also comport with the 2018 results.

The stated interest in diversity has resulted in modest gains, according to surveys' results. Slightly less than a quarter of respondents said the number of people of color or women of any color on their board increased in the past year. That figure is about 3 percentage points higher than 2018. But for the most part it stayed the same. Two respondents said it decreased.

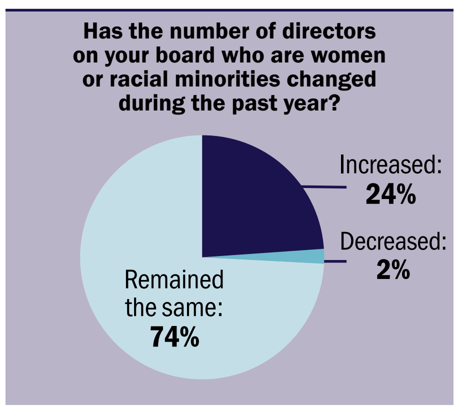
Almost all boards of survey respondents have at least one independent female director — just 11% of respondents said their board included no women. About a quarter said there were two women on the board, about 15% said there were three, and slightly more than 10% said four. A small percentage said they had five or six women on their board.

Boards had a greater level of gender diversity than racial diversity. The majority of boards have no members of color, respondents said. About 30% said their board included one racial minority, and a handful said two or more.

Some independent directors and other experts say they're worried the pandemic, and its attendant market problems, will have a negative effect on fund board diversity. They say boards may feel the need to cut recruitment budgets in an overall effort to save money and simply hire people the board already knows. And that, they say, can have the unintended consequence of identifying fewer candidates overall, and as a result, fewer diverse candidates.

PROGRESS OR STAGNATION

The majority of directors who responded to *BoardIQ*'s survey said diversity on their boards stayed the same during the past year.



Source: BoardIQ *survey. Based on 87 responses.*

But they also say that there are plenty of creative ways to keep up a strong recruitment process despite the lockdown orders that make meeting in person difficult.

"Interviews are continuing by video, telephone and social-distancing walks. No, it's not impacting the ability to onboard someone successfully," Wilbanks says. "But is it a lot of work and expensive? You bet. Will it slow diversity recruiting? It probably will. Will it be visible on the radar screen five years from now? Probably not."

For many boards, it may make the most sense to pause recruitment efforts until after the coronavirus threat is over, directors and recruiters say. But some boards need to carry on identifying and interviewing candidates — especially if getting new members on the board is critical to its ability to function.

"Boards are taking different postures, and it depends in part on the urgency to fill a seat," says Lee Hanson, vice chairman and partner at recruiter **Heidrick & Struggles**. She says she has seen a limited number of instances where a board has decided to go ahead with virtual interviews and try to get comfortable with candidates. In those situations there were board members who could vouch for the candidate personally and additional research by the search firm regarding culture fit.

"But I do think it's a challenge to get people to really commit in most cases without that in-person interaction," she says.

Some corporate boards have gotten around that by having certain board members meet one on one with final candidates at a state park, where they talked at a six-foot distance as they walked around outside, Wilbanks says. Doing so required hours-long drives for everyone, but it allowed them to get better acquainted beyond a videoconference, and Wilbanks says that's likely to filter into the fund board space for those who are within a reasonable driving distance.

One director, who spoke on condition of anonymity, says his group is in the final stages of recruiting. This time, the board has the benefit of already having met with finalists in-person. Going forward, however, members are thinking creatively about how to make sure candidates are a good fit with the rest of the directors, he says.

One plan: to use a short test that measures and maps the work traits and habits of candidates, along with those of the rest of the board. That will be one factor they look at to determine how candidates fit with the rest of the board even if travel is restricted or prevented altogether.

"It's another way of getting, in a scientific way, a sense of the personalities and work styles and work traits, between mapping it with the board and finishing it with the needs of the board," says the director. "You're still able to get good information about those intangible questions."

Trying to save money on recruitment can harm the board in the long run, directors and others say. The independent director uses as a hypothetical example a board's decision to forgo hiring a search firm even though directors think employing one is in their best interest.

"If a board doesn't use a search firm because of cost considerations, they should be mindful that there may be unintended consequences, such as you may have less access to highly qualified candidates. You are going to have fewer candidates, and you may inadvertently wind up not being able to see candidates that may have better characteristics than others," the director says.

"You could have an all-white male board, but it's less geographically diverse," he says. "You could have an all-white male board without the expertise in the '40 Act that you would like. There are a whole host of undesirable consequences and trade-offs if you make the decision based on cost considerations."

A second director who spoke on condition of anonymity says casting as wide a net as possible for director candidates is an industrywide best practice that he doubts the coronavirus will do much to reverse.

"I could see where some people might do what's comfortable, but if you're following best practice and trying to be the best at building a board that's balanced and diverse with diverse opinions and backgrounds, that doesn't always mean all your pals in the financial industry. It means going out and looking for others," he says.

The concern about trying to save money on recruiting might be true for smaller organizations that lack resources, but he says he can't see that happening at larger ones.

"There's a drive to best practice and following best practice on all aspects. It's a barrier to entry if you can't do that," he says. "It's something that is so built into the threads that, if you backslide on that, if you don't follow that, your goose is cooked, you're out of it, you're done." ■

Industry News Roundup continued from page 9

in Boston, where the firm employs more than 550, Crandall told the *Business Journal*.

"An important thing MassMutual can do in Boston is not have our people taking space [on mass transit] from people who need to go to their workplace to get paid and have their companies function," he said.

Outside Massachusetts, MassMutual also has U.S. offices in New York, Connecticut and Arizona.

The firm's plans to move into a new Boston office remain on track, though construction could be pushed back a couple months because of the pandemic, Crandall also said.

The Seaport District building, originally scheduled to be completed late next year, will house 1,000 employees. MassMutual does not expect to sublease any space to compensate for employees who will be working remotely, Crandall said.

BNY Mellon Getting Rid of 'Old White Men': Lawsuit

A former BNY Mellon trader is suing for age discrimination, alleging he was repeatedly passed over for assignments and ultimately let go because of a firm-wide bias against "old white men."

Alan Levy, 59, lost out to younger, less experienced applicants for three positions after his equities derivatives trader position was eliminated, and the firm's human relations chief bluntly acknowledged to him that BNY Mellon was burdened with "too many 40- to 60-year-old white men," the complaint contends.

"Unfortunately, that's not good news for you, but that happens to be true," said Barbara Aurecchione, then and now the firm's global head of employee relations, in a conversation with Levy, according to the lawsuit, filed two weeks ago in Manhattan federal court. ■

Board IQ
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California Board continued from page 3

profit, any other type of organization."

Others have also noticed the law's impact. "I have seen boards with current or expected vacancies take into consideration the greater visibility of gender balance on a board," **Paul Hastings** partner David Hearth says in an email. "Based on what I hear directors discuss, my view is that this law has, in part, had that effect."

Lee Hanson, vice chairman of recruiter **Heidrick & Struggles**, says she hasn't placed directors on any California-based fund boards. But speaking generally, "Fund boards have definitely been seeking more diversity, and I have not had challenges in recruiting women to fund boards," she says via email.

Still, it's a slow uphill climb, a struggle that's exacerbated by the reality that fund board membership — even for organizations that are committed to gender and racial diversity — is at least somewhat reflective of corporate leadership overall.

"The degree of difficulty in recruiting diverse candidates to these boards depends on how broadly (or narrowly) the position specification is described," Hanson says. "For example, if the spec calls for a retired CEO, this is obviously challenging, given the extremely low number of women CEOs at this point. Conversely, if the spec is flexible enough to include CFOs and executives who have, for example, legal and compliance expertise, or capital markets experience, then we can and have absolutely been able to build quite diverse boards."

The California law clearly has had an impact across corporate boards, beyond just investment trusts. When they released their paper in October, the Clemson and Arizona researchers said that, in the year since the law was enacted, the number of board seats in California held by females increased by 143, or 23%. That's greater than the increase in female directors seen in other states that don't have such a law, they said.

But compliance isn't universal. Some boards that may or may not fall under the California law's purview are waiting for clarity before they take any action. Some are closely watching pending lawsuits challenging the law's constitutionality.

"The [business development companies] I know with boards that do not have at least one female director either are comfortable that the law does not apply or are waiting for the litigation to proceed further to produce a better sense of whether the law will survive," Hearth says.

Regardless of if the California law is eventually tossed or weakened, it has already spawned other bills. Greene notes that "a number of states have taken up similar measures modeled after California SB 826," including Illinois, Pennsylvania and New Jersey.

Even as some governments move toward legislating diversity on boards, a debate continues about whether the right way to increase diversity is through that method, Dechert's Perlow says.

"Many directors think diversity in general, and gender diversity in particular, are important goals," he says, "but don't think a statute is the way to get there." ■

Mercer Funds continued from page 7

boards make no special effort to search for diversity.

There are resources, however, for boards that want to change their composition, Schneider says.

"You have to make it a priority. You have to say this is a business imperative, because you will have a better and stronger board as a result," she says. "…If you're serious about it, you need to make the effort."

Last October, Luis Ubiñas, a former president of the Ford Foundation, joined the Mercer board. In January, Joan Steel, a former Aon executive who runs her own wealth advisory firm, also became a director.

"Our new board members are just adding so much to the dialogue, to the questions. It's just refreshing," Cepeda says. "That's what diversity is all about." ■