

M. Trevor Phillips OBE
Chair of the Equality and Human Rights Commission

Via email- trevor.phillips@green-park.co.uk

London, 28 February 2017

Dear Sir,

Beyond One by '21

Hermes Investment Management is an asset manager with approximately £28 billion of assets under management. Our goal is to help people invest better, retire better and create a better society for all. We have been doing this since 1983, initially to manage the assets of our owner, the BT Pension Scheme, and more recently for a growing range of external clients. Our stewardship team, Hermes EOS, provides stewardship services, including corporate engagement and voting recommendations for around 40 international pension funds with assets of approximately £261 billion.

We commend the Report into the Ethnic Diversity of UK Boards: Beyond One by '21, which sets out practical issues and outlines objectives and timescales for companies to embrace ethnic diversity. Against the backdrop of compelling evidence and analysis we believe there is a strong rationale for companies to reflect their business footprint in their boardroom.

In our view, diversity, in terms of skills, experience, background, gender and ethnicity, should transcend the representation of specific interests on the board to draw on the key business drivers described in the report. An overly prescriptive approach based on the representation of stakeholders risks confining board members to defined roles and interests at the expense of board effectiveness and company purpose. We thus favour a clear rationale that is in the first instance based on a compelling commercial and moral case. Overall, board composition should include gender and ethnic gateway criteria, which companies should use to build a skillset, similar to the successful approach taken by the Women on Boards initiative.

In our response, we have set out a number of ideas to support the long-term success of this initiative. We look forward to discussing these further over the coming months.

Yours sincerely,

Recommendations:

1. Increase the diversity of UK Boards.

We support these objectives. We prefer for recommendation 1.1 to also include the comply-or-explain principle that is presented under the disclosure recommendation (3.3).

2. Develop candidates for the pipeline & plan for succession.

We strongly agree with the need for a clear tone and concrete commitment from the top. The fact that they should 'appropriately reflect the importance of diversity to their organisation' (Recommendation 1.1) seems rather ambitious at this stage for a number of companies. We suggest instead that companies be required to define their own diversity policy and targets in line with their organisational footprint and be encouraged to explain the concrete actions they have in place to ensure their culture and organisation benefit from the diversity dividend. A more all-encompassing strategy on diversity placing ethnicity firmly along-side gender and other equally relevant aspects - as identified by the company - would enable deeper organisational buy-in and drive change beyond being a mere tick-box exercise in compliance.

We agree that sustained progress requires concrete diversity measures, especially for managerial and executive ranks. Nonetheless, different companies may choose different ways to embed diversity in their organisation in a sustained and positive manner. Therefore recommendation 2.2 on defining a board level mentoring process may be too prescriptive a remediation method, although we recognise that this can be an effective tool in some cases.

3. Enhance transparency & disclosure

Alongside policy and reporting, we believe that it is important for a company to explain the benefits of diversity and convey the link between its diversity policy and own strategy and footprint. Formalising this alignment is in our view key to a sustained and positive cultural change.

We strongly support the disclosure of key diversity measures in the annual report, as recommended in the Beyond One by '21 report. Importantly, any required disclosure should enable an understanding of how diverse a company and its board are across the full range of diversity aspects.