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Board Composition and Director Recruiting Trends

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Featuring Commentary From

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Executive Summary

Boards of directors sit atop the corporate ladder, tasked with critical responsibilities that include directing company strategy in concert with executive management on behalf of shareholders. Given the board's vital role and visibility, directors are subject to scrutiny and even backlash from both regulators and shareholders, particularly when decisions can put not only the company but also markets at risk.

In the wake of accounting scandals and Sarbanes-Oxley in the early 2000s, audit committees found themselves in the spotlight and were forced to adjust accounting and internal control processes to comply with new regulations. Similarly, compensation committees faced new requirements following the financial crisis of 2008 and subsequent Dodd-Frank legislation—such as granting shareholders the right to Say on Pay votes. More recently, the nominating and governance (nom/gov) committee—the board committee responsible for assessing board performance and recruiting new directors—has found its turn in the spotlight. Although not spurred by any major market or economic catalysts, board refreshment and diversity have taken their place among other top issues for investors, governance professionals and directors themselves.

A body of evidence suggests that diversity improves financial performance and that companies ahead of the curve may reap rewards for their broad range of perspectives and inclusivity. **According to a McKinsey & Company report**[1] (see page 7 for footnote information), companies in the top quartile for gender diversity were 15% more likely to outperform those in the bottom quartile, while ethnically diverse companies in similar positions were 35% more likely to outperform. Meanwhile, large institutional investors such as State Street Global Advisors and BlackRock called on boards to address composition, and gender diversity specifically, in 2017. Each investor has said it will heavily scrutinize boards that do not effectively and urgently address their gender composition.

Obstacles to diversifying boards remain. **According to a global survey of directors by KPMG**[2] (see page 7 for footnote information), 61% of directors claimed a need for greater diversity of viewpoints and backgrounds on their boards, while only 36% were satisfied their board had the right complement of skills, background and perspectives to navigate the competitive global environment. KPMG's survey respondents said that boards were most challenged to find directors with both the general business experience and specific expertise needed for a board role, yet only 31% of directors indicated their boards had a robust or formal board succession plan. Nearly half of respondents claimed to be actively recruiting directors with specific skill sets, but less than one-third were actively casting a wide net to enhance diversity. Clearly, many boards and nom/gov committees are grappling with the process of building a high-performing board and meeting the expectations of constituents.

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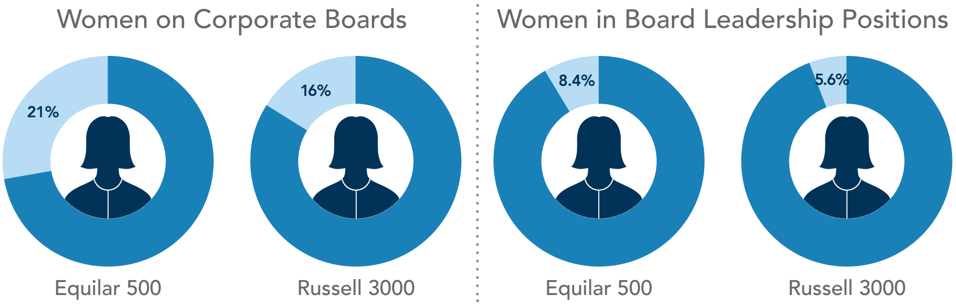
Progress toward board diversity has been slow, but steady. Gender diversity on Russell 3000 boards increased about one percentage point per year since 2013, when about 12% of all board seats were occupied by women directors—in 2017 that figure stands at 16%. Among 500 large-cap companies examined (Equilar 500), nearly 21% of board seats were filled by women in 2017, up from 16.5% in 2013. Moreover, women are more likely to serve multiple boards than men, indicative that on average, boards are more likely to nominate proven women rather than seek out their less experienced colleagues.



Classified Boards Fall Out of Favor (p. 21)

Although board size and turnover was relatively flat between 2014 and 2017, the prevalence of classified boards—also known as "staggered"—fell in both indices. On a classified board, directors are elected in classes that typically serve three-year terms before facing reelection. Directors serving on unclassified boards are elected annually. Classified boards are more common among smaller companies, with about 38% of Russell 3000 boards organized in classes in 2017, compared to about 13% of Equilar 500 boards. Among the Russell 3000, the prevalence of classified boards fell seven percentage points since 2013 while prevalence among the Equilar 500 fell nearly 10 percentage points in the same period, a signal that investors in larger-cap firms have successfully lobbied to reduce classified boards among the asset class.

The percentage of board seats that went to directors joining new boards remained between 10% and 12% in both the Equilar 500 and Russell 3000 each year since 2014, with no discernable movement in either index. By and large, consumer goods and technology companies in the Equilar 500 experienced greater refreshment rates than other sectors, while in the Russell 3000 the basic materials, healthcare and technology sectors led.

Companies Weigh Proxy Disclosure on Board Diversity (pp. 28-30)

Because there is not a requirement for such information in public filings, companies face the decision of whether or not to disclose board diversity considerations and metrics in their annual proxy statements, and if so, how. It turns out that a majority of Equilar 500 companies disclosed the consideration of gender (64%) or ethnicity (62%) in board or director candidate assessments, according to an examination of most recent proxy filings.

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These disclosures are typically boilerplate text. A minority of companies disclose the actual composition of the board by gender (45%) or ethnicity (40%). There are interesting differences to note across sectors as well—for example, utilities companies were most likely to disclose assessment by either gender or ethnicity (74%) as well as include images of directors (89%), yet ranked only sixth out of eight sectors in terms of composition disclosure (41%). Technology companies were least likely among the sectors to disclose assessment considerations (52% and 55%) and yet ranked at or above the median for composition disclosure (42% to 45%).

45.1%

Companies Disclosing Board Gender Diversity

39.8%

Companies Disclosing Board Ethnicity/Racial Diversity

Boards Lean Toward Independent Leadership (pp. 32-33)

In 2013, more than half of Equilar 500 boards (52%) and about 43% of Russell 3000 boards were chaired by the CEO, numbers that fell to about 46% and 36%, respectively, in 2017. Meanwhile, the prevalence of non-executive chairs climbed in both indices, and by 2017 about 37% of Equilar 500 boards were led by non-executive chairs, while nearly half of Russell 3000 boards were led by a non-executive chair. Meanwhile, those boards that retained a CEO-chair increasingly paired them with an independent lead director. Only two-thirds of CEO-chairs at Equilar 500 companies were paired with a lead director in 2013 while nearly 85% shared board leadership with a lead director in 2017. In the Russell 3000, these numbers moved from about 62% in 2013 to 75% in 2017 as emphasis on board independence has become entrenched in corporate governance practice.

From 2013 to 2017 in both the Equilar 500 and Russell 3000, directors joining new boards were most likely to join audit committees in their first year. About 34% of new directors joined audit committees in 2017, a high for the Equilar 500, but a four-year low among Russell 3000 directors joining boards. Similar percentages of new directors joined either compensation or nom/gov committees in 2017, about 20% in the Equilar 500 and 25% in the Russell 3000.

More Directors Bring CEO and Finance Experience to Boards (pp. 47 & 49)

About 39% of directors brought CEO experience to boards in 2013, while about 40% did so in 2017. That trend diverged from observations of Russell 3000 boards, where directors with CEO experience increased between 2013 and 2017 from 22.5% to 28.3%.

(continued on next page)

Board Composition and Director Recruiting Trends Webinar

Join Equilar, KPMG and Semler Brossy for a discussion on how boards can develop a more strategic approach to board succession planning. The webinar will examine trends in board composition and recruiting as well as discuss investors' expectations and initiatives to increase gender and ethnic diversity in the boardroom.

www.equilar.com/webinars

Men were more likely to have CEO experience in both indices, outpacing women by about 32 percentage points in the Equilar 500—46.7% of men had CEO experience—and 21 percentage points in the Russell 3000 where 31.5% of men brought CEO experience to boards compared to 10.6% for women directors. Fewer new directors in both indices brought CEO experience, suggesting boards are incrementally recruiting a broader group of executives to the boardroom.

Over 18% of Equilar 500 companies disclosed a board skills matrix in their 2017 proxy statements, nearly seven percentage points more than the previous year. Corporate leadership and finance experience were disclosed for more than 90% of directors. Business development skills, technology, international business and operational experience followed with over 60% of directors assigned these attributes. About 44% of directors were credited with risk management experience and 24% with strategy expertise.

Most Common Board Skills

(% of Equilar 500 directors in skills matrices)

94% Finance

87% Business Development

77% Technology

Footnote information:

1. McKinsey & Company, "Why Diversity Matters." February 2015. http://www.mckinsey.com/business-functions/organization/our-insights/why-diversity-matters

2. KPMG's Board Leadership Center, "Building a Great Board." May 2016. https://boardleadership.kpmg.us/content/dam/blc/pdfs/2016/global-pulse-survey-building-a-great-board.pdf

Beyond the Numbers

A Q&A with Susan Angele, KPMG's Board Leadership Center, and Blair Jones, Semler Brossy Consulting Group

Board composition and director recruiting encompasses a swath of issues, including but not limited to board size, age and tenure limits, diversity, committee construction and more, some of which is not even addressed in this study, despite nearly 50 data charts and associated analysis. Equilar spoke on the trends uncovered in the Board Composition and Director Recruiting Trends report, Equilar spoke with contributors Susan Angele, Senior Advisor, Board Governance, for KPMG's Board Leadership Center, and Blair Jones, Managing Director at Semler Brossy Consulting Group to add to their commentary on the data throughout the report with respect to the wider trends and influencing factors affecting boardrooms at public companies today.

Equilar: What are some of the key catalysts influencing board composition to become a top investor issue in 2017? How have these market factors changed the way boards approach evaluation and recruiting?

Susan Angele: Institutional investors are focused on long-term value, and a high-performing board is a critical enabler. Proxy proposals on topics including board diversity, proxy access and other issues relevant to board composition are of high interest to investors in the current environment. In addition, institutional investors I've spoken with are looking for greater transparency around board evaluations. They do not expect to see the results of an individual director evaluation, but they do want to know about the board's processes. They are looking for information—through proxy disclosure and director engagement—that will give them confidence that the board takes evaluations seriously and is committed to continuous improvement.

Blair Jones: Investors have been focused on board composition and refreshment now for several years as a means to ensure that boards are keeping their skills contemporary, staying objective, and having tough conversations where required. State Street upped the ante this year, getting more prescriptive in at least one aspect it cares about related to board composition. The investor declared it would vote against board members in nominating roles where there were no women on the board and no apparent efforts to recruit women. To the extent that "what gets measured gets done," boards now have at least one scorecard to focus their board succession planning efforts.

Equilar: About 40% of large-cap companies—and far fewer as companies get smaller— disclose a mandatory retirement age in proxy statements, though some qualitative studies have shown much higher adoption. What are the considerations boards should take into account if setting an age limit for a board member?

Angele: Boards considering age limits should be clear about the purpose for and use of an age limit. Age limits are useful as a means of imposing board turnover on an objective basis, and they establish a known transition point that can be used for board succession planning purposes. Based on an assumption that, for many directors, the relevance of their experience will become stale after they have been retired from a day job for more than 10 years, the commonly designated ages of 72 and 75 are reasonable, if somewhat arbitrary, cut-off points. Due to the impersonal nature of an age limit, one risk is that the board will lose directors who are highly relevant and valuable. Another significant risk is the use of age limits as the only tool for board refreshment. Linking board turnover to a board matrix that is updated as needed to align board composition and the company's current and future needs is an essential component of good governance.

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Beyond the Numbers (continued)

Jones: Ideally, board refreshment happens naturally, with board members having candid conversations about the skill sets needed at any given time and the extent to which individual board members' skills and contributions match those needs. However, the ideal can be challenging to execute at times. In these cases, age limits provide a formal mechanism to ensure refreshment. The challenge is, older board members can be some of the best: their history with the company and business experience can be difficult to replace. Companies choosing to institute an age limit will be well served to think first about the ideal age and tenure distribution across the board. With this additional context in mind, where to set the appropriate age limit is likely to be clearer.

Equilar: Conversely, tenure limits are much fewer and further between. How have discussions around term limits or ideal length-of-service parameters worked into board assessment and evaluation? What are the pros and cons of prescribing tenure guidelines?

Angele: There are definitely pros and cons of tenure limits. On the plus side, a tenure limit is one way to ensure the periodic introduction of a new board member who can look at the company with fresh eyes. It also allows directors who are simply ready for a change to make a graceful exit with no explanation needed. Also, some investors argue that directors begin to lose their independence after too long an association with the company, and a tenure limit is beneficial in helping to allay this concern. On the other hand, a longtime director who remains relevant, engaged and independent-minded—and who may have seen management and/or some shorter-term investors come and go—may be better positioned than newer directors to raise concerns and drive uncomfortable discussions. The arbitrary loss of a valuable, active director in these circumstances would be a shame. The better solution is to move toward a culture where director turnover is driven by the needs of the company, the commitment and engagement of the director, and the value that they add inside and outside the boardroom.

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Jones: More companies have gravitated to age limits than tenure limits if they feel they need a formal transition time for board service. Tenure limits may have more appeal as average board ages get younger, and average board tenures increase. For now, with average board tenure around nine years in length, tenure limits feel somewhat more arbitrary. Some industries simply take longer for board members to fully contribute. In addition, some of the longest tenured board members bring a history of the company and past decisions, in addition to practical life experience, that is highly valuable. What's most important is that boards have a range of tenures across their membership. That way, boards are getting a consistent infusion of fresh thinking and are able to respond to evolving board skill needs.

Equilar: How has the increase of shareholder activism and the widespread adoption of proxy access changed the face of board assessment and refreshment in the past several years?

Jones: Boards can't ignore the importance of addressing board assessment and refreshment proactively. The belief that the "best defense is a good offense" certainly applies here. Activists frequently focus in on "board entrenchment" and offer up directors with industry and financial expertise. Boards benefit when they look critically at the skills and experiences their current board members bring and how those skills match against the skill sets activists might offer up, and more importantly, current and future business needs. These assessments bring a candor to board assessment discussions and to board succession planning. While taking a hard look internally can be tough, boards that go through the exercise come out stronger for the experience.

Equilar: Overall, more than 50% of board seats at large-cap companies are occupied by directors who serve on multiple boards, and among those, the number serving three boards is actually going up. What are some of the concerns that shareholders have with over-boarding? What advantages does serving multiple companies afford a director and their various boards?

Beyond the Numbers (continued)

Angele: When directors serve on more than one board, the sight lines across companies and industries can be highly valuable. A director who is retired and serves on three public company boards may well be able to commit appropriate amounts of time to all three companies, and the companies may gain tremendous benefit from the director's breadth of experience.

> *"To the extent a board member can't devote sufficient time to these fiduciary duties, shareholders worry their investments will not be well tended."*
>
> **- Blair Jones, Semler Brossy Consulting Group**

However, sooner or later, depending on the director's other commitments, serving on numerous boards can lead to bandwidth issues. Expectations on board members are high and continue to increase. In addition to board and committee meetings, directors are spending more and more time outside the boardroom, assessing externally-sourced information, meeting with management, customers, and investors, and visiting manufacturing and sales facilities. In recognition of this increased workload, proxy advisors and some institutional investors have recently reduced the number of boards that they consider to be too many. Proxy advisor policies now recommend against a director who sits on more than five public company boards (compared to more than six previously), and they have stricter limits for sitting executives. As the number of boards on which a director sits increases, investor inquiries about over-boarding are likely to increase as well.

Jones: Shareholders count on board members to help ensure their investments will grow and be viable long-term. To the extent a board member can't devote sufficient time to these fiduciary duties, shareholders worry their investments will not be well tended.

That said, board members who serve on multiple boards have accelerated learning and as such, can be important instigators of conversation. They often bring important takeaways and topics from one board to another—for example potential business risks, cost saving opportunities or new distribution channels. They can also share best practices relative to board processes and governance. With the amount of change that businesses are facing, being able to benefit from board members' experiences in multiple settings creates competitive advantage.

Equilar: The percentage of women on boards continues to increase steadily but slowly. How has the conversation around diversity—not just gender, but also race and ethnicity—in the boardroom evolved in the past few years? What are some of the barriers to increased board diversity?

Angele: The conversation is focused on diversity as an enabler to long-term value. Boards need diversity of skill set, background and experience around the table, and they gain competitive advantages by casting a wide net in pursuit of boardroom talent. Gender diversity has been studied and measured frequently. Study after study has demonstrated an association between business results and boards that include women, and investors are actively engaging with companies on gender diversity in light of this research. Even with this activity, progress continues to be slow, and a few of the largest institutional investors have indicated that they will begin to exercise their proxy votes if they do not see appropriate progress after engagement. Race/ethnic diversity is equally important to strong business results but does not yet have the same level of research to support the business case, likely due in part to smaller overall numbers and the potential for misidentification based solely on names and/or photos. An additional measure of diversity, sexual orientation, has even less visibility. At this point, these facets of diversity are often not part of the discussion, which of course adds to the challenge.

Jones: If it once was a check-the-box exercise, board diversity is now a business priority. Boards understand the importance of diversity in fostering better conversations, better representing employee and customer perspectives and driving better results.

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Beyond the Numbers (continued)

Boards want the benefit of diverse experiences, and are becoming more open to sourcing them from less traditional backgrounds. Despite this commitment, boards are sometimes challenged to balance priorities to increase diversity while also meeting other skill needs (e.g., technology, industry expertise). The ideal is to find a candidate who matches both, but candidates with these profiles may be in short supply, or sought after by multiple boards. While trade-offs are inevitable, the important point is to plan ahead for board turnover and start considering potential candidates and strategies for sourcing them early in order to ensure the most favorable outcome.

Equilar: What are some strategies boards have developed for effective evaluation and refreshment of their ranks, particularly around skill sets? What are some of the more in-demand skills that have contributed to increasing openness to diverse perspectives?

Angele: Let me preface this by saying my answer is based on boards who are proactive in this area—those that have invited KPMG's Board Leadership Center into the boardroom to discuss best practices, attended director education programs, or reached out in other ways in the interest of board education. These directors are hard at work sharpening their assessments and recruiting strategically to help maintain alignment between the skill sets of the board and the current and future needs of the company. Conversations are being enriched by the addition of directors with backgrounds in various aspects of technology—social media, data and analytics, cyber security, and disruptive technologies—as well as those with a global worldview that includes knowledge of specific geographies relevant to the company's business. We are also starting to see an interest in discussions of long-term strategy through the lens of environmental, social and governance considerations. This brings in a whole new desirable skill set. Depending on the company, it may be climate competence or regulatory/public policy expertise. This often leads to the recruitment of directors who have not been CEOs and who do not have prior board experience but are otherwise highly qualified. And a broad lens in the search for boardroom talent tends to go hand-in-hand with a broad lens when it comes to gender, race/ethnicity and age diversity.

> ***"A broad lens in the search for boardroom talent tends to go hand-in-hand with a broad lens when it comes to gender, race/ethnicity and age diversity."***
>
> **- Susan Angele, KPMG's Board Leadership Center**

Jones: Nominating and governance committees are playing an important role in translating business strategy into board talent needs and putting in place succession plans that anticipate, and even facilitate, board turnover. By putting these plans in place, boards can plan for the requirements that turnover will create to replace a skill set as well as potential opportunities to substitute other skill sets and experiences. Lead directors and non-executive chairs also have an important role to play in board refreshment by facilitating evaluation discussions, both for the board as a whole and for individual members. Many companies will start this process with a written survey, but the best input comes from one-on-one discussions the lead director or chair has with individual members. These conversations provide the opportunity for candid feedback about a members' contributions and shared planning for board turnover.

About KPMG

The KPMG Board Leadership Center champions outstanding governance to help drive long-term corporate value and enhance investor confidence. Through an array of programs and perspectives—including KPMG's Audit Committee Institute, the WomenCorporateDirectors Foundation, and more—the Center engages with directors and business leaders to help articulate their challenges and promote continuous improvement of public- and private-company governance. Drawing on insights from KPMG professionals and governance experts worldwide, the Center delivers practical thought leadership—on risk and strategy, talent and technology, globalization and compliance, financial reporting and audit quality, and more—all through a board lens.

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As a former Fortune 500 executive and an expert in board governance, Susan is a frequent writer and speaker on topics of importance to corporate directors in her role as Senior Advisor, KPMG Board Leadership Center. The Board Leadership Center engages with directors and business leaders to help articulate their challenges and promote continuous improvement, by delivering insights and practical thought leadership—on risk and strategy, talent and technology, globalization and compliance, financial reporting and more, all through a board lens. Prior to KPMG, in roles including Vice President, Global Deputy General Counsel at The Hershey Company and Chief Counsel, US Snacks at Mondelez (then a $5billion division of Kraft/Nabisco), she provided legal and business advice and led initiatives that protected value and enabled sustainable, global growth of some of the world's most famous and best-loved brands. Susan is a NACD (National Association of Corporate Directors) Board Leadership Fellow and a member of Women Corporate Directors.

About Semler Brossy Consulting Group

Semler Brossy is an established, independent executive compensation consulting firm founded in 2001. Over the years, our clients have trusted us with their toughest business issues, helping them work through changes in strategic direction, turnaround situations, CEO succession, transactions such as mergers, acquisitions and IPOs, and conflicts between management and the Board. We have built and maintained longstanding corporate and board consulting relationships because we always view issues from a multi-faceted business perspective.Our principals have deep and extensive experience working with a broad cross-section of U.S. companies, from Fortune 100 to smaller, privately held firms, some over several decades. Many clients are global, with all the attendant compensation issues. Industries we currently serve include financial services, healthcare, consumer products, technology, manufacturing, retail and professional services. www.semlerbrossy.com

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Blair Jones joined Semler Brossy Consulting Group as a Managing Director in 2005 after 15 years at Sibson Consulting where she was an SVP and Practice Leader for Leadership Performance and Rewards. Blair began her professional career at Bain & Company, helping clients develop pricing and marketing strategies. She has been published in many journals including *Directors and Boards, Harvard Business Review, WorldatWork Journal, workspan* and *The Corporate Board*, and has authored chapters in three books on executive compensation. Her views have been sought by and quoted in publications such as *The New York Times, Business Week, The Wall Street Journal, Forbes, USA Today, The Los Angeles Times* and *HR Executive*. She is a member of the WorldatWork Executive Rewards Advisory Council and holds Certified Compensation Professional® (CCP®), Global Rewards Professionals (GRP®) and Certified Executive Compensation Professional (CECP)® and Certified Benefits Professional® (CBP) designations from the WorldatWork Society. Blair holds a bachelor's degree with highest honors from Williams College.

Methodology

Board Composition and Director Recruiting Trends, an Equilar publication, examines the boards of directors as disclosed in annual proxy statements (DEF 14A) of Equilar 500 and Russell 3000 companies over the last five years. Years are defined by proxy filing dates between July 1st and June 30th. The Equilar 500 tracks the 500 largest, by reported revenue, U.S.-headquartered companies trading on one of the major U.S. stock exchanges (NYSE, Nasdaq or NYSE MKT (formerly AMEX)), adjusted to approximate the industry sector mix of similar large-cap indices. Industry sectors are based on Yahoo! Finance classifications, and conglomerates were excluded from charts throughout the report due to small sample size, but these companies are included in the overall figures. "CEO experience" is defined as service in a chief executive officer position at any company since the inception of Equilar's database in the year 2000.

The narrative portion of this report identifies trends in the composition and disclosure of public company boards. KPMG's Board Leadership Center and Semler Brossy Consulting Group have offered independent commentary to provide color and context to how companies structure boards and recruit directors within the current governance landscape.

Key Findings

1. The prevalence of new directors—a reflection of turnover on and additions to boards—in the Equilar 500 dropped 1.9 percentage points from 12.0% in 2016 to 10.1% in 2017. Russell 3000 companies saw an increase in new directors from 8.7% to 10.8% during the study period.
2. About 21% of Equilar 500 and 16% of the Russell 3000 board seats were occupied by women in 2017, but only 8.4% and 5.6% of leadership positions, respectively (chair or lead director), were women. Compensation committees were the least likely to be chaired by women out of the three major board committees—compensation, audit and nominating/governance.
3. 45.1% of Equilar 500 companies disclosed board composition by gender, vs. 39.8% of companies that included composition details in terms of race or ethnicity.
4. Median director tenure has dropped at a faster rate than the average tenure in the Equilar 500 over the last five years. Furthermore, median tenure for women fell by nearly two years while median tenure for men remained relatively consistent.
5. More than half of all board seats in the Equilar 500 are occupied by directors who serve multiple boards, a figure that has been increasing steadily since 2013.

Board Attributes

Board Composition and Director Recruiting Trends

Data Points

- The average board size showed little variation in the past five years, with around 11 directors on an average Equilar 500 board and around nine directors on the average Russell 3000 board *(Fig. 1)*
- Despite mild fluctuations, there were little to no net changes in average board size throughout the different sectors over the past five years
- The utilities and financial sectors had the highest average board size, averaging about 11.5 directors in the Equilar 500 and about 10 directors in the Russell 3000 overall *(Fig. 1)*
- In the Equilar 500, technology and basic materials companies had the smallest board sizes on average with just over 10 directors, while the Russell 3000 technology and healthcare sectors had the lowest average board size—each had just over eight directors *(Fig. 1)*
- A closer look at the exact board sizes showed an opposing trend between Russell 3000 companies and Equilar 500 companies. Russell 3000 companies gravitated toward smaller board sizes with 28.6% having fewer than eight people in contrast to 3.6% of Equilar 500 companies *(Fig. 2)*

Figure 1 Average Board Size by Sector in 2017

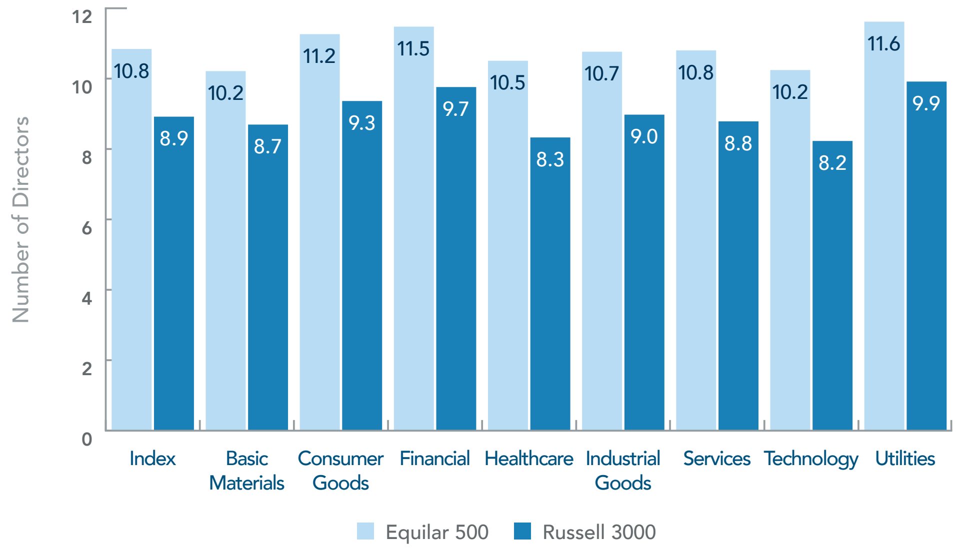
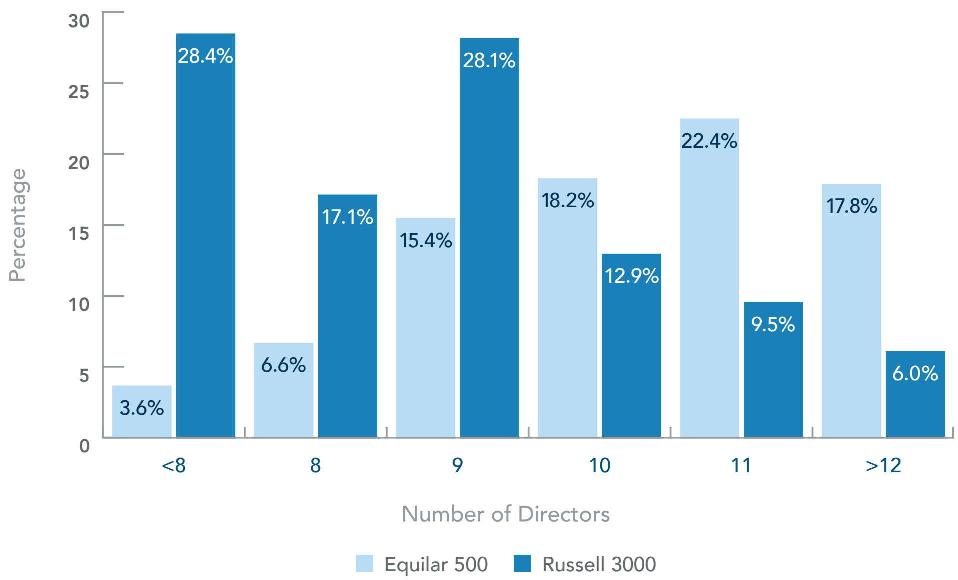


Figure 2 Board Size Distribution in 2017



KPMG Commentary

A study by GMI done a few years ago for *The Wall Street Journal* looked at companies with a market capitalization of $10 billion or larger and found that within a range of board sizes spanning an average of 9.5 to 14 members, the companies with smaller boards outperformed the companies with larger boards. This was true across all of the industries represented in the study. The reason was not determined, but one can speculate that smaller groups may collaborate more efficiently and make decisions more quickly.

This research serves as a useful reminder of the importance of making each board seat count. Board size may increase for any number of reasons. The larger and more complex the company becomes, the more types of backgrounds and skill sets will be needed in the boardroom. This is consistent with the data showing that Equilar 500 company boards have a few more members on average than the Russell 3000 average. Expanding the size of the board is also frequently done for succession planning, for example to add a director who can succeed the chair of a key committee, or to add diversity of background or skill set into the boardroom. As part of a board's annual evaluation, it is helpful to consider: Do we have enough board members? Do we have too many?

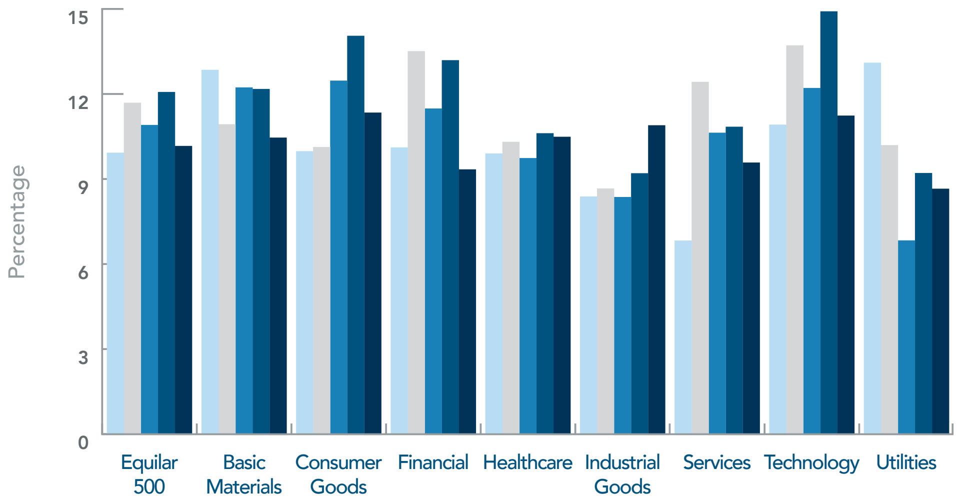
Semler Brossy Commentary

Absolute board size matters less than shared philosophy and guiding principles around board skill requirements and contributions. Smaller boards are often helpful in smaller companies where all outside board members participate in all committees and are more hands-on. As a company gets larger, the variety of skill sets that are useful on a board can grow, and a larger board provides an opportunity to populate more of these skill areas. As it applies to evaluation and refreshment specifically, small and large boards alike can have difficulty with messages and transitions—that's where leadership and shared mindset on the best way to help the organization succeed long-term are critical.

Data Points

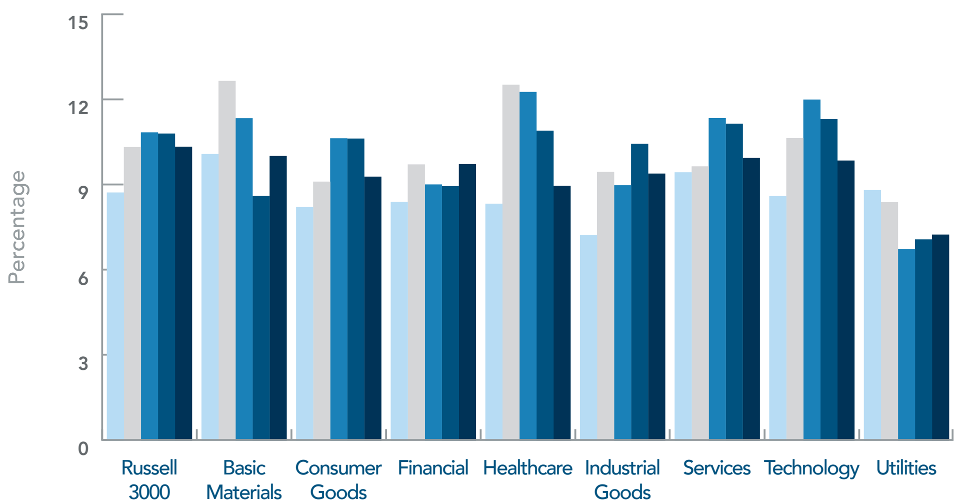
- The prevalence of new directors—a reflection of turnover on and additions to boards—in the Equilar 500 dropped 1.9 percentage points from 12.0% in 2016 to 10.1% in 2017 *(Fig. 3a)*
- Russell 3000 companies saw a spike in new directors from 8.7% to 10.3% between 2013 and 2014—afterwards, the percentage of new directors in comparison to incumbents remained steady *(Fig. 3b)*
- The Equilar 500 consumer goods sector had the highest director turnover in 2017, where 11.3% of the total directors were new, while the Russell 3000 basic materials sector had the highest percentage of new directors in 2017 at 10.0% *(Figs. 3a and 3b)*
- The utilities sector in both indices had the lowest director turnover in 2017, where 8.6% of total directors were new to the board that year in the Equilar 500, vs. 7.2% in the Russell 3000 *(Figs. 3a and 3b)*
- From 2013 to 2017, the number of new directors in the utilities sector dropped 4.5 percentage points, the largest decrease across sectors, while the services sector saw the biggest increase from 2013 to 2017 of new directors at 2.7 percentage points *(Fig. 3a)*

Figure 3a Equilar 500 New Directors by Sector



	Equilar 500	Basic Materials	Consumer Goods	Financial	Healthcare	Industrial Goods	Services	Technology	Utilities
2013	9.9%	12.8%	10.0%	10.1%	9.9%	8.4%	6.8%	10.9%	13.1%
2014	11.7%	10.9%	10.1%	13.5%	10.3%	8.6%	12.4%	13.7%	10.2%
2015	10.9%	12.2%	12.4%	11.5%	9.7%	8.3%	10.6%	12.2%	6.8%
2016	12.0%	12.1%	14.0%	13.2%	10.6%	9.2%	10.8%	14.9%	9.2%
2017	10.1%	10.4%	11.3%	9.3%	10.5%	10.9%	9.5%	11.2%	8.6%

Figure 3b Russell 3000 New Directors by Sector



	Russell 3000	Basic Materials	Consumer Goods	Financial	Healthcare	Industrial Goods	Services	Technology	Utilities
2013	8.7%	10.0%	8.2%	8.4%	8.3%	7.2%	9.4%	8.6%	8.8%
2014	10.3%	12.6%	9.1%	9.7%	12.5%	9.4%	9.6%	10.6%	8.3%
2015	10.8%	11.3%	10.6%	9.0%	12.2%	8.9%	11.3%	12.0%	6.7%
2016	10.8%	8.6%	10.6%	8.9%	10.9%	10.4%	11.1%	11.3%	7.0%
2017	10.3%	10.0%	9.2%	9.7%	8.9%	9.4%	9.9%	9.8%	7.2%

Semler Brossy Commentary

Absent an urgent business need to change over more of the board, turnover of one member a year, and on occasion, two, seems appropriate. Boards need to find a balance between the value of continuity and the ability of board members to build on shared context and experience year to year and adding new members who bring new thinking and additional skills. More important than the absolute number or percentage goals for turnover is having a clear plan for board composition, including a targeted range of experiences, skills and characteristics, coupled with a timeline for succession that sequences the transitions.

KPMG Commentary

The published data shows that the level of turnover has stayed within a small range over the years, but it would be interesting to know if the primary reasons for turnover have changed significantly. Going back to 2013, the first year shown in the Equilar charts, turnover would likely have been primarily associated with various types of retirements, either a board member reaching retirement age or the departure of a member of the executive team who sits on the company's board (company executives in addition to the CEO might have been on the board in earlier years, whereas now that would be highly unusual in a public company). Other factors have increased over the years in their level of influence on board turnover, including activist investors seeking change in the boardroom and board turnover driven by a change in company strategy. Given the changes in board governance over the years, it may be that while the level of turnover has remained reasonably steady the forces driving turnover are quite different.

Data Points

- In 2017, 40.5% of Equilar 500 companies disclosed a mandatory retirement age policy in comparison to 18.6% of Russell 3000 companies *(Fig. 4)*
- While Russell 3000 companies' mandatory retirement policy disclosures have fluctuated, Equilar 500 companies showed an escalating trend with policy prevalence increasing each year *(Fig. 4)*
- Over the five-year study period, the mandatory retirement policy disclosed by Equilar 500 companies increased by 9.0 percentage points, and while prevalence for Russell 3000 companies increased 1.4 percentage points overall, disclosures reached a high of 19.2% of companies in 2016 *(Fig. 4)*
- Both Equilar 500 and Russell 3000 companies' most prevalent age quoted in mandatory retirement polices was 72 in 2017 *(Fig. 5)*
- Nearly 80% of Russell 3000 and Equilar 500 retirement policies were set at either 72 years or 75 years *(Fig. 5)*

Figure 4 Mandatory Retirement Age Disclosures

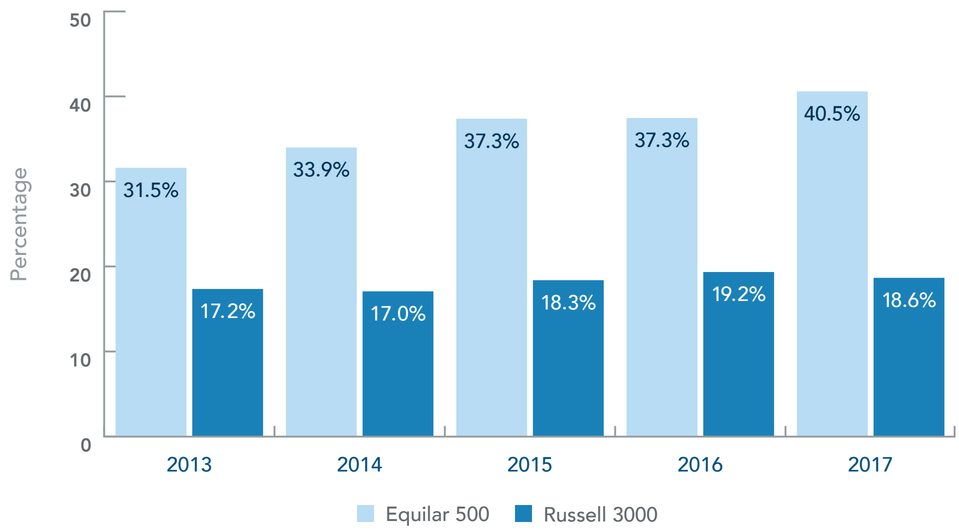
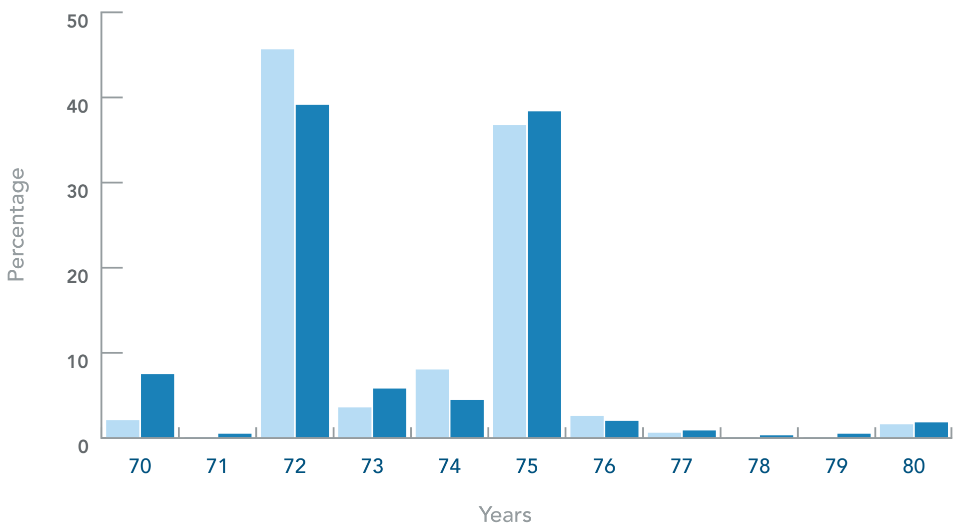
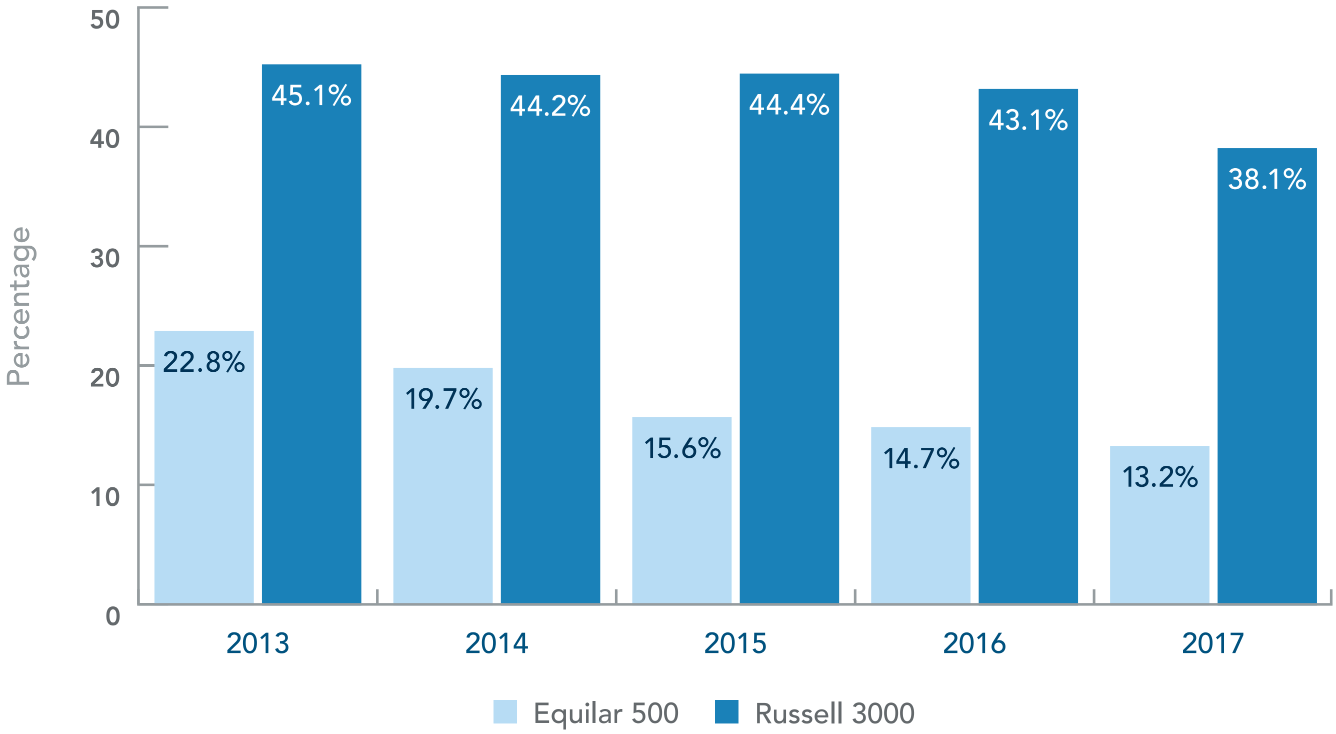


Figure 5 Mandatory Retirement Age Distribution in 2017



	70	71	72	73	74	75	76	77	78	79	80
E500	2.0%	0.0%	45.5%	3.5%	7.9%	36.6%	2.5%	0.5%	0.0%	0.0%	1.5%
R3K	7.4%	0.4%	39.0%	5.7%	4.4%	38.3%	1.9%	0.8%	0.2%	0.4%	1.7%

Figure 6 Classified Boards



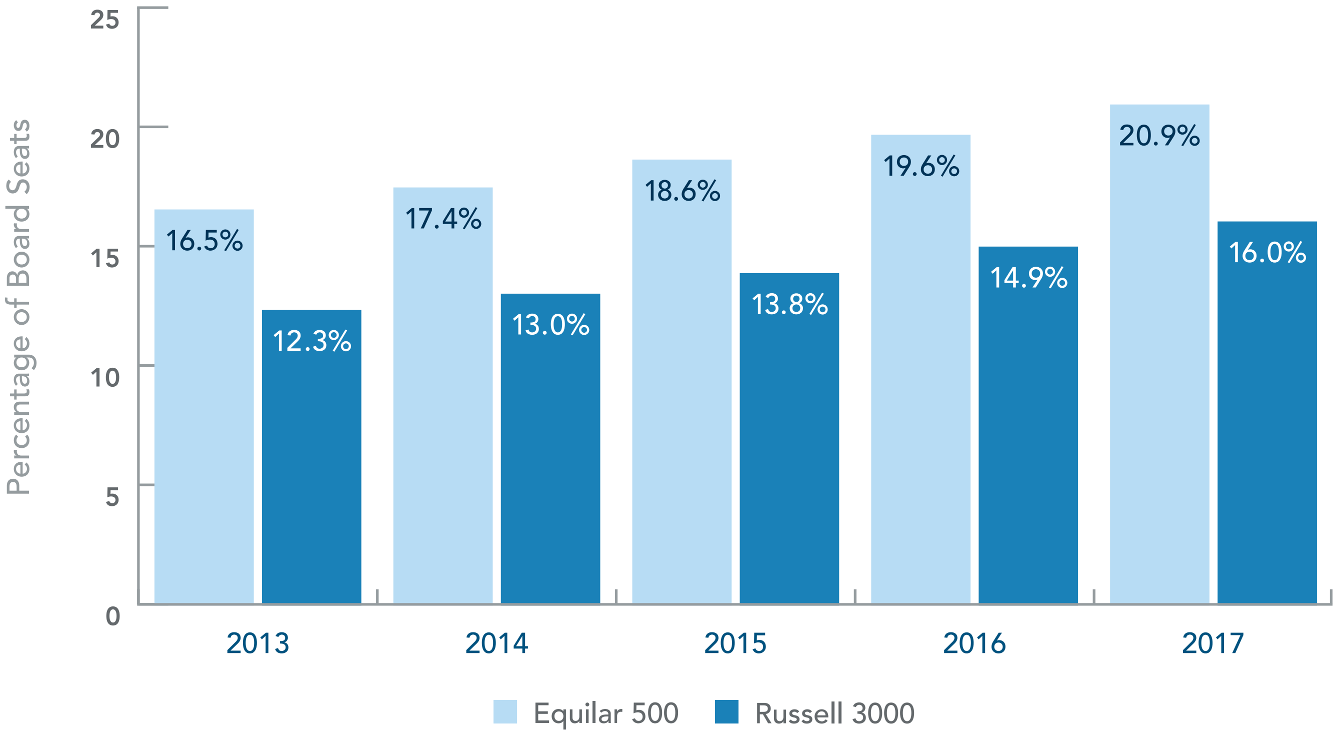
Data Points

- Classified boards—or boards that are elected in multiple "classes" and do not have annual elections for every director—saw an overall decline over the past five years for Equilar 500 and Russell 3000 companies *(Fig. 6)*
- Russell 3000 companies were far more likely than Equilar 500 companies to have a classified board, and the gap widened over the past five years *(Fig. 6)*
- During the past five years, classified board prevalence fell by 9.6 percentage points within the Equilar 500 and 7.0 percentage points within the Russell 3000 *(Fig. 6)*

Semler Brossy Commentary

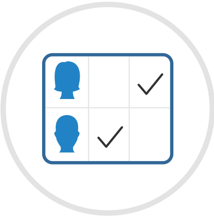
Classified boards have the advantage of providing stability, which can be important in the early years of life as a public company. However, when a company or an industry is growing and changing rapidly, or performance challenges occur, board skill requirements can evolve beyond the current skill sets, and classified boards can impede needed refreshment. Particularly given investor preference for annual director elections, it is important for board nominating and governance committees with classified boards to continuously evaluate whether the business rationale for remaining classified continues to hold.

Figure 7 Women on Boards



Data Points

- From 2013 to 2017, the percentage of women on boards rose from 16.5% to 20.9% within the Equilar 500 and from 12.3% to 16.0% within the Russell 3000 *(Fig. 7)*
- The percentage of women on boards increased every year since 2013 for both the Equilar 500 and Russell 3000 *(Fig. 7)*
- Equilar 500 companies consistently had a higher percentage of women on boards than Russell 3000 companies. In 2017, the difference was 4.9 percentage points, the largest gap in the study period *(Fig. 7)*



Semler Brossy Commentary

There was a time when getting 20% of women on boards might have seemed an audacious goal, but now that goal has been reached for most of the Equilar 500 boards and seems in sight for the Russell 3000. That achievement should be celebrated. At the same time, it is not time for boards to rest on their laurels, as gender parity is the ultimate goal, and the current pace of change has that milestone still quite a ways away. Many of the activities boards are already taking to increase the number of women on boards, such as ensuring diverse candidate slates and aiming to fill "every other" open board seat with a woman per the Committee for Economic Development's mandate, require continued vigilance. CEO advocacy is also key, and organizations like the US 30% Club are bringing CEOs together to support the cause. Finally, boards and CEOs can help increase the pool of female candidates by focusing on opportunities for women to move into C-suite roles in succession discussions and helping develop current candidates so they are board-ready and visible.

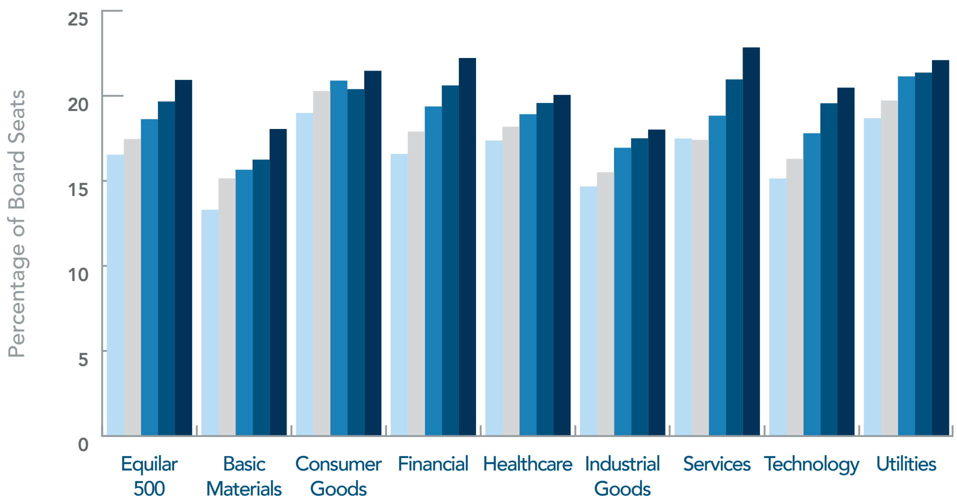
KPMG Commentary

This chart is significant in that for the first time the percentage of women on boards has exceeded 20% among Equilar 500 companies. Equally significant is that the percentage of women in both the Equilar 500 and Russell 3000 companies has increased every year since 2013. Given the challenges businesses face from factors including disruptive technology, global competition and geopolitical uncertainty, companies have increasingly taken a more strategic approach to board composition, looking for skill sets and backgrounds that will add new and important perspectives to the boardroom conversation. This need has caused many boards to look beyond their immediate networks when they recruit new board members. And gender diversity has become a key focus, undoubtedly due in part to the influence of investors, many of whom have increasingly engaged with boards on the issue as a matter of business importance in light of the significant amount of research showing an association between women on boards and long-term corporate performance. However, the pace of change, though steady, is glacially slow. As investors such as State Street and BlackRock have begun to ratchet up the stakes for companies that do not have women on their boards by indicating that they will consider voting against key members of boards which are not taking sufficient steps to diversify, it remains to be seen whether this will speed up the pace of change.

Data Points

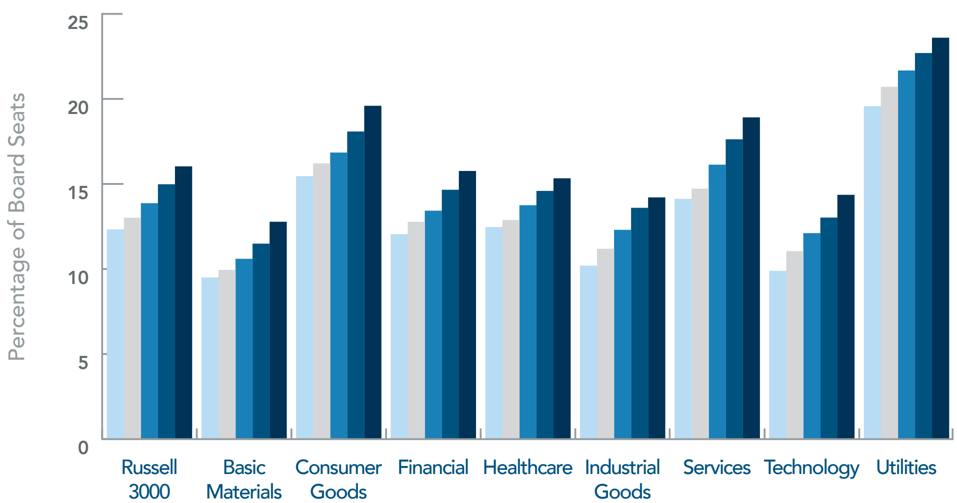
- Equilar 500 companies have consistently seen an increase in the percentage of women on boards over the past five years in all sectors except consumer goods, which saw a slight decline in 2016 but then rebounded in 2017 *(Fig. 8a)*
- Russell 3000 companies saw a steady increase of women on board year to year between 2013 and 2017 in all sectors *(Fig. 8b)*
- The Equilar 500 financial sector had the biggest percentage gain in women on boards with a 5.7 percentage point increase between 2013 and 2017, while the Russell 3000 services sector saw the largest percentage gain, a 4.5 percentage point increase, in that same time frame *(Figs. 8a and 8b)*
- In 2017, the Equilar 500 services sector had the highest percentage of women on boards at 22.8%, while the industrial goods and basic materials sectors shared the lowest percentage at 18.0% *(Fig. 8a)*
- The Russell 3000 utilities sector had the highest percentage of women on boards in 2017 at 23.5%, while the basic materials sector had the lowest prevalence at 12.7% *(Fig. 8b)*

Figure 8a Equilar 500 Women on Boards by Sector



	Equilar 500	Basic Materials	Consumer Goods	Financial	Healthcare	Industrial Goods	Services	Technology	Utilities
2013	16.5%	13.2%	18.9%	16.5%	17.3%	14.6%	17.4%	15.1%	18.6%
2014	17.4%	15.1%	20.2%	17.8%	18.1%	15.5%	17.4%	16.2%	19.7%
2015	18.6%	15.6%	20.8%	19.3%	18.9%	16.9%	18.8%	17.7%	21.1%
2016	19.6%	16.2%	20.3%	20.6%	19.5%	17.4%	20.9%	19.5%	21.3%
2017	20.9%	18.0%	21.4%	22.2%	20.0%	18.0%	22.8%	20.4%	22.0%

Figure 8b Russell 3000 Women on Boards by Sector

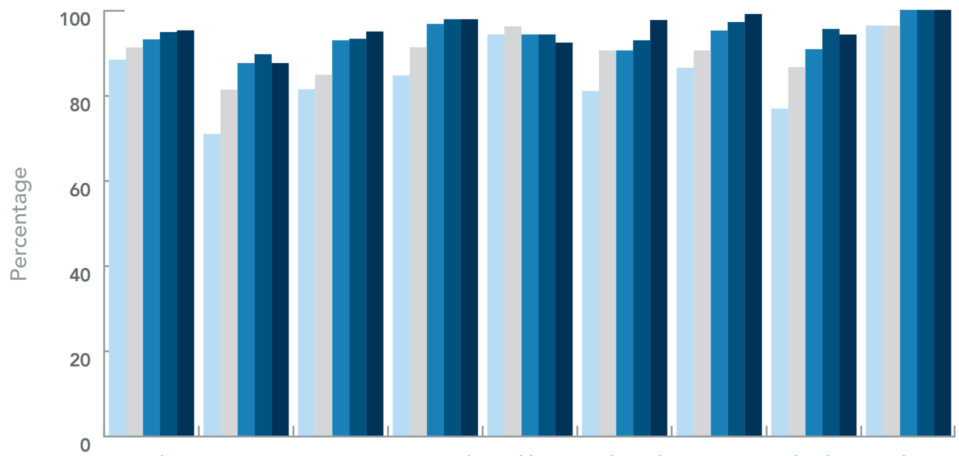


	Russell 3000	Basic Materials	Consumer Goods	Financial	Healthcare	Industrial Goods	Services	Technology	Utilities
2013	12.3%	9.4%	15.4%	12.0%	12.4%	10.1%	14.1%	9.8%	19.5%
2014	13.0%	9.9%	16.2%	12.7%	12.8%	11.1%	14.7%	11.0%	20.7%
2015	13.8%	10.5%	16.8%	13.4%	13.7%	12.2%	16.1%	12.1%	21.6%
2016	14.9%	11.4%	18.0%	14.6%	14.5%	13.5%	17.6%	13.0%	22.6%
2017	16.0%	12.7%	19.5%	15.7%	15.3%	14.2%	18.9%	14.3%	23.5%

Data Points

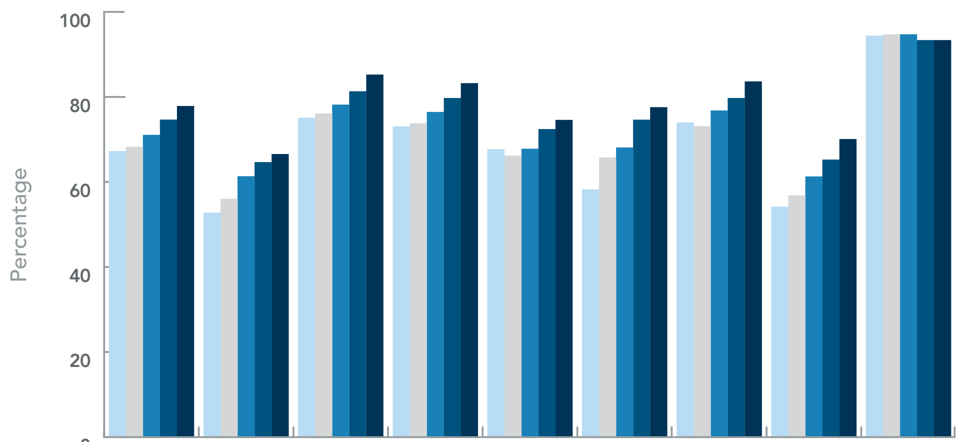
- Both Equilar 500 and Russell 3000 companies saw increases in the number of boards with at least one woman from 2016 to 2017—Equilar 500 boards saw a 0.4 percentage point increase to 95.2% and Russell 3000 boards saw a 3.2 percentage point increase to 77.7% (Figs. 9a and 9b)
- From 2015 to 2017, only the Equilar 500 utilities sector had 100% of its boards with at least one woman *(Fig. 9a)*
- The basic materials sector in both the Equilar 500 and the Russell 3000 had the lowest percentage of boards with at least one female director at 87.5% and 66.4%, respectively, in 2017 *(Figs. 9a and 9b)*
- The technology sector saw the largest percentage point gain in the prevalence of boards with at least one woman in the Equilar 500, while the industrial goods sector earned that distinction in the Russell 3000 *(Figs. 9a and 9b)*

Figure 9a Equilar 500 Boards with One or More Female Directors by Sector



	Equilar 500	Basic Materials	Consumer Goods	Financial	Healthcare	Industrial Goods	Services	Technology	Utilities
2013	88.3%	70.8%	81.4%	84.6%	94.2%	81.0%	86.4%	76.8%	96.3%
2014	91.2%	81.3%	84.7%	91.2%	96.2%	90.5%	90.5%	86.6%	96.3%
2015	93.1%	87.5%	92.9%	96.7%	94.2%	90.5%	95.1%	90.8%	100.0%
2016	94.8%	89.6%	93.2%	97.8%	94.2%	92.9%	97.1%	95.5%	100.0%
2017	95.2%	87.5%	94.9%	97.8%	92.3%	97.6%	99.0%	94.2%	100.0%

Figure 9b Russell 3000 Boards with One or More Female Directors by Sector



	Russell 3000	Basic Materials	Consumer Goods	Financial	Healthcare	Industrial Goods	Services	Technology	Utilities
2013	67.0%	52.6%	74.9%	72.9%	67.5%	58.0%	73.8%	54.0%	94.2%
2014	68.0%	55.8%	75.9%	73.6%	66.0%	65.6%	72.9%	56.6%	94.5%
2015	70.9%	61.1%	78.0%	76.3%	67.6%	67.9%	76.6%	61.1%	94.5%
2016	74.5%	64.5%	81.1%	79.5%	72.2%	74.4%	79.5%	65.0%	93.2%
2017	77.7%	66.4%	85.0%	83.0%	74.4%	77.4%	83.4%	69.9%	93.2%

Semler Brossy Commentary

One would hope that the continued discussion of the benefits of diversity in the boardroom would encourage all companies, regardless of size, to pursue more women on their boards. Research shows that more diverse boards have better dialogue, experience less group think and make better decisions. Diverse boards and organizations have also been shown to be more attractive to employees, candidates for employment, customers and other stakeholders. There has also been more organized activity from investors and other groups at large-cap companies to promote more women on boards. However, positions like State Street has taken to vote against board members in nominating committee roles where a board does not have a female member and efforts to add female members are not underway will certainly increase the urgency at mid- and smaller-cap stocks if the business case alone is not sufficient.

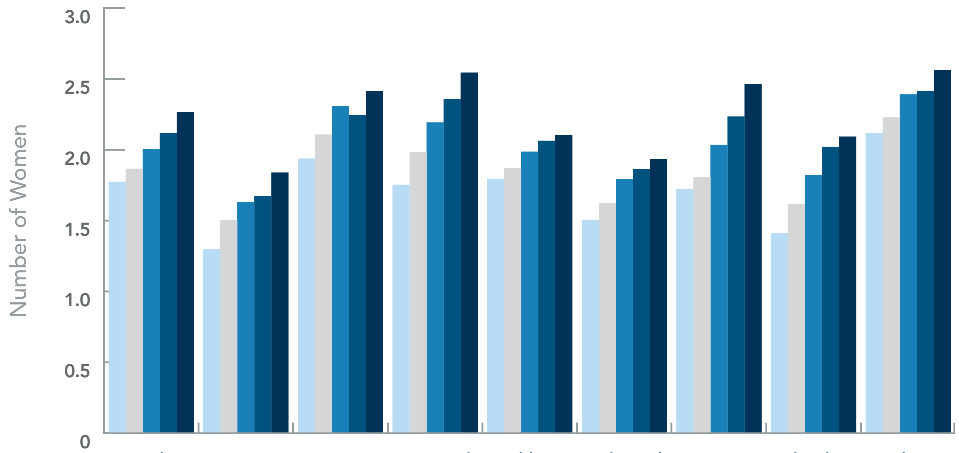
KPMG Commentary

For companies that do not have at least one woman on their board, the question is—why not? While every company is unique, a survey from Women Corporate Directors Foundation in association with Spencer Stuart and Harvard Business School is instructive. When asked about the main challenge to increasing the percentage of women on boards, the response differed dramatically by age and gender. Among men over 65 years old, 42% selected "lack of qualified female candidates" as the main reason, while only 14% of women over 65 and 24% of men under 55 made the same selection. In contrast, only 15% of men over 65 but 43% of women over 65 and 29% of men under 55 responded that the issue is "traditional networks tend to be male-dominated." It stands to reason that the smaller the company, the smaller the scope of the board's collective network, and boards that are currently made up exclusively of men who have male-dominated networks may very well perceive a challenge locating qualified female candidates. For smaller companies, expanding a board search outside a known network may have challenges of its own, but if undertaken, a wider lens is likely to reveal a wealth of qualified female and minority candidates to add significant value to the boardroom conversation.

Data Points

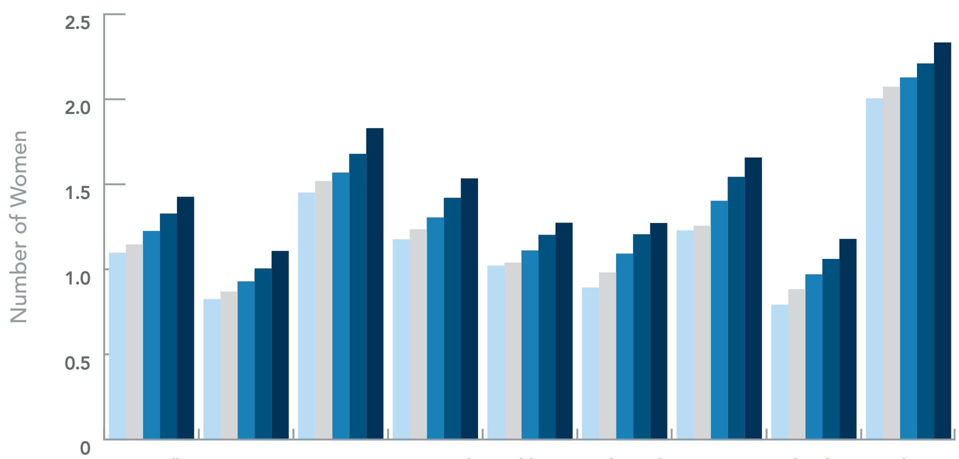
- The average number of women directors per board was 2.3 and 1.4 across the Equilar 500 and Russell 3000, respectively, in 2017 *(Figs. 10a and 10b)*
- The utilities sector for both the Equilar 500 and Russell 3000 had the highest average of female directors at 2.6 and 2.3, respectively *(Figs. 10a and 10b)*
- The financial and services sectors saw the largest gain in the Equilar 500, increasing from an average of 1.7 women on each board to 2.5, while the services sector in the Russell 3000 saw the largest gain from 1.2 to 1.7 *(Figs. 10a and 10b)*

Figure 10a Equilar 500 Average Number of Women on Boards by Sector



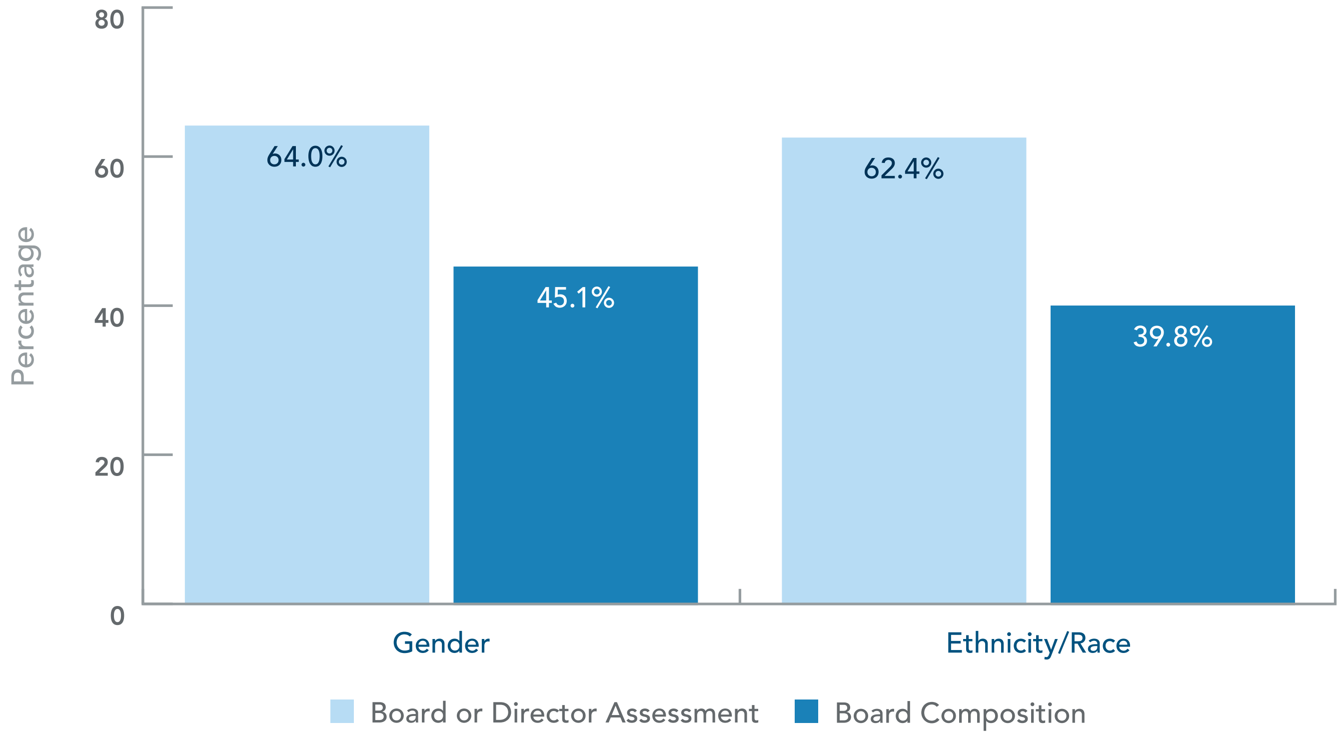
	Equilar 500	Basic Materials	Consumer Goods	Financial	Healthcare	Industrial Goods	Services	Technology	Utilities
2013	1.8	1.3	1.9	1.7	1.8	1.5	1.7	1.4	2.1
2014	1.9	1.5	2.1	2.0	1.9	1.6	1.8	1.6	2.2
2015	2.0	1.6	2.3	2.2	2.0	1.8	2.0	1.8	2.4
2016	2.1	1.7	2.2	2.4	2.1	1.9	2.2	2.0	2.4
2017	2.3	1.8	2.4	2.5	2.1	1.9	2.5	2.1	2.6

Figure 10b Russell 3000 Average Number of Women on Boards by Sector



	Russell 3000	Basic Materials	Consumer Goods	Financial	Healthcare	Industrial Goods	Services	Technology	Utilities
2013	1.1	0.8	1.4	1.2	1.0	0.9	1.2	0.8	2.0
2014	1.1	0.9	1.5	1.2	1.0	1.0	1.3	0.9	2.1
2015	1.2	0.9	1.6	1.3	1.1	1.1	1.4	1.0	2.1
2016	1.3	1.0	1.7	1.4	1.2	1.2	1.5	1.1	2.2
2017	1.4	1.1	1.8	1.5	1.3	1.3	1.7	1.2	2.3

Figure 11 Equilar 500 Board Composition Disclosures on Gender and Ethnicity/Race in 2017



Data Points

- Data on board diversity is not universally available and is reliant on voluntary information provided by companies, given that there is no requirement to disclose this information about directors
- Equilar undertook a manual analysis of Equilar 500 proxy statements to uncover whether companies included diversity as a category for assessing board candidates, which tends to be more boilerplate, vs. disclosing specific references to the number or percentage of directors on their boards with respect to gender, ethnicity or race *(Figs. 11, 12 and 13)*
- 64.0% of Equilar 500 companies disclosed that they consider having gender diversity on their boards as an important part of assessing their director candidates *(Fig. 11)*
- 62.4% of Equilar 500 companies disclosed that ethnicity or race was a consideration when assessing board candidates *(Fig. 11)*
- 45.1% of Equilar 500 disclosed board composition by gender, vs. 39.8% of companies that included composition details in terms of ethnicity or race *(Fig. 11)*

Data Points

- Utilities, industrial goods and healthcare companies were the most likely to disclose information with respect to gender and ethnic/racial diversity as a means for board assessment *(Figs. 12 and 13)*
- Exactly half (50.0%) of industrial goods companies disclosed gender diversity in board composition, the only sector to reach this level in either composition diversity disclosure category in the study *(Fig. 13)*
- 48.1% of healthcare companies disclosed board composition for both gender and ethnic/racial diversity *(Figs. 12 and 13)*
- The basic materials sector was the least likely to disclose board composition by gender (36.3% of companies) or ethnicity/race (21.3% of companies) *(Fig. 13)*
- While the technology sector was least likely to disclose information about diversity being part of director assessment, tech companies were close to the Equilar 500 average in terms of gender diversity composition disclosure (44.9%) and above average when it came to ethnic/racial diversity disclosures (42.0%) *(Figs. 12 and 13)*

Figure 12 Equilar 500 Disclosures on Board Assessment by Gender and Ethnicity/Race by Sector

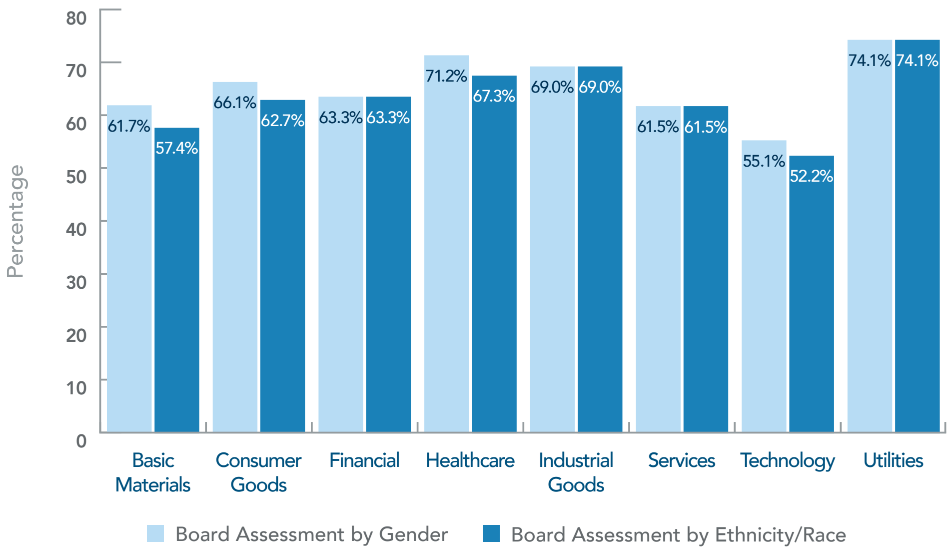


Figure 13 Equilar 500 Disclosures on Board Composition by Gender and Ethnicity/Race by Sector

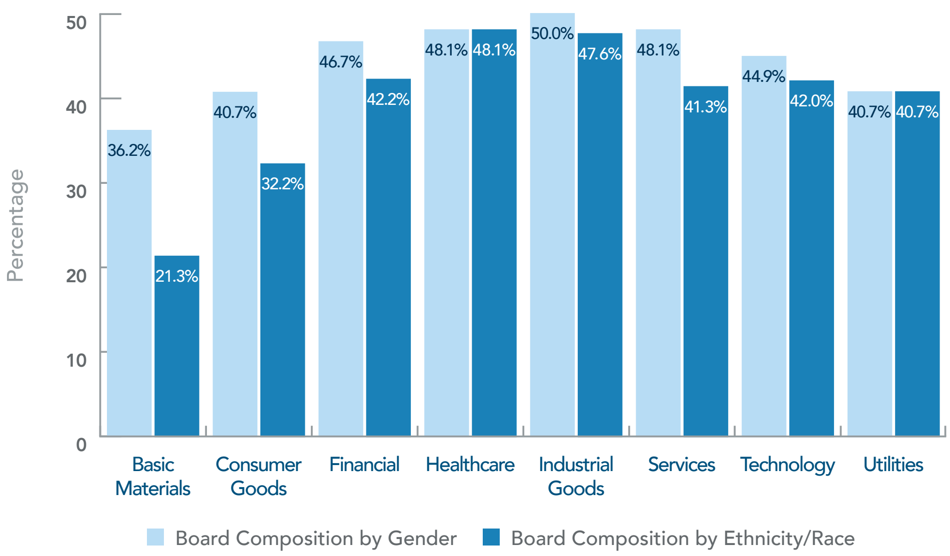
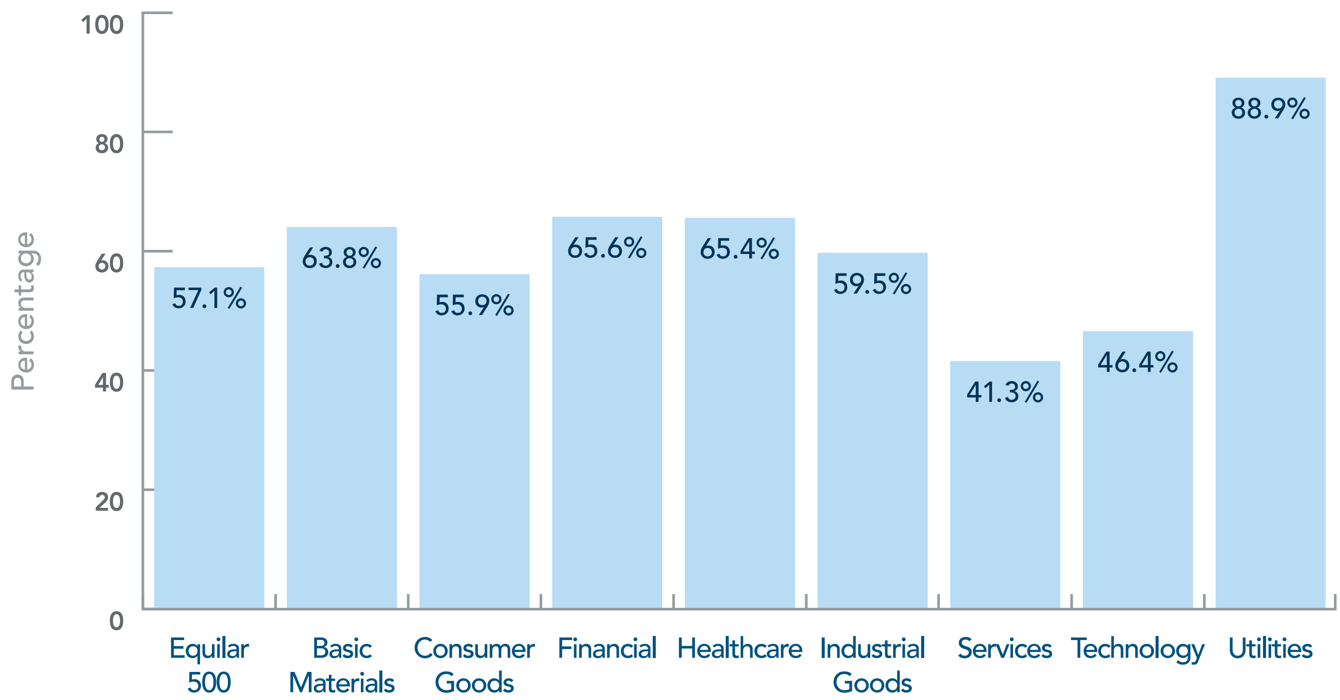


Figure 14 Equilar 500 Proxy Statements Including Director Images in 2017



Data Points

- Overall, 57.1% of Equilar 500 companies included director photos in their proxy statements, as many stakeholders have suggested companies do so in order to improve transparency around board diversity *(Fig. 14)*
- Nearly 90% of utilities companies included director nominee photos in their proxy statements, by far the highest percentage of any sector *(Fig. 14)*
- Services companies—which include retailers, travel companies, cable and internet providers, etc.—were the least likely to include director photos in their proxy statements, with 41.3% doing so *(Fig. 14)*

Board Leadership and Board Committees

Board Composition and Director Recruiting Trends

Data Points

- In 2013, more than half of Equilar 500 boards were led by a combined CEO-chair, a number that dipped six percentage points to 45.9% in 2017, while the rise of non-executive chair leadership increased *(Fig. 15a)*
- If the current trends displayed continue, by 2021 there will be an equal proportion of boards led by CEO-chairs and non-executive chairs within the Equilar 500 *(Fig. 15a)*
- In the Russell 3000, CEO-chairs comprised 36.3% of board leadership positions *(Fig. 15b)*
- At the current rate of increase, by 2019, more than half of the boards in the Russell 3000 will be led by a non-executive chair, while at the current rate of decline, by 2020, less than one-third of the boards in the Russell 3000 will be led by a CEO-chair at that time *(Fig. 15b)*

Figure 15a Equilar 500 Non-Executive and CEO-Chair Prevalence

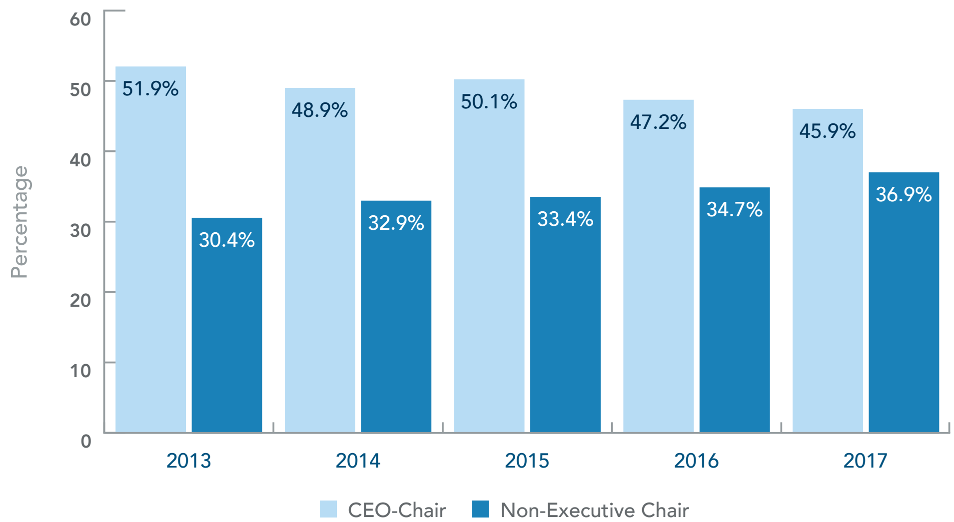
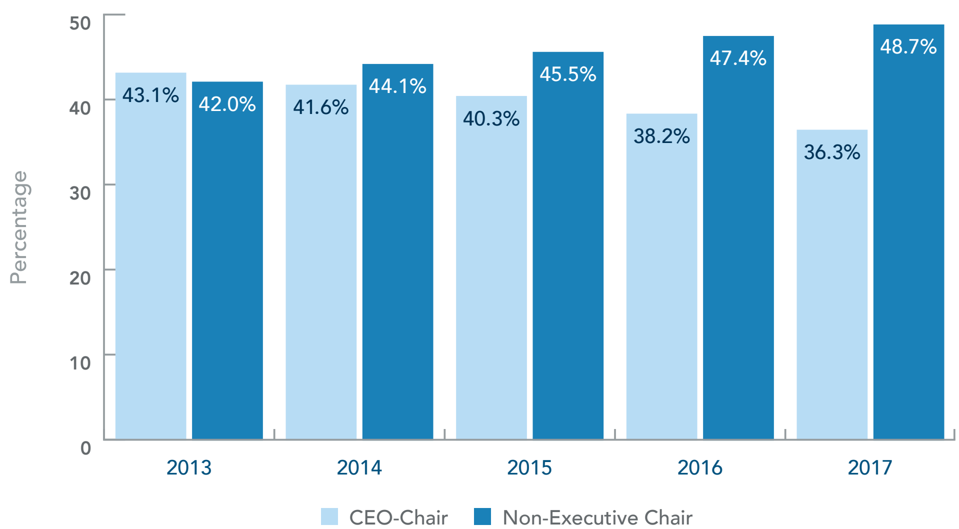


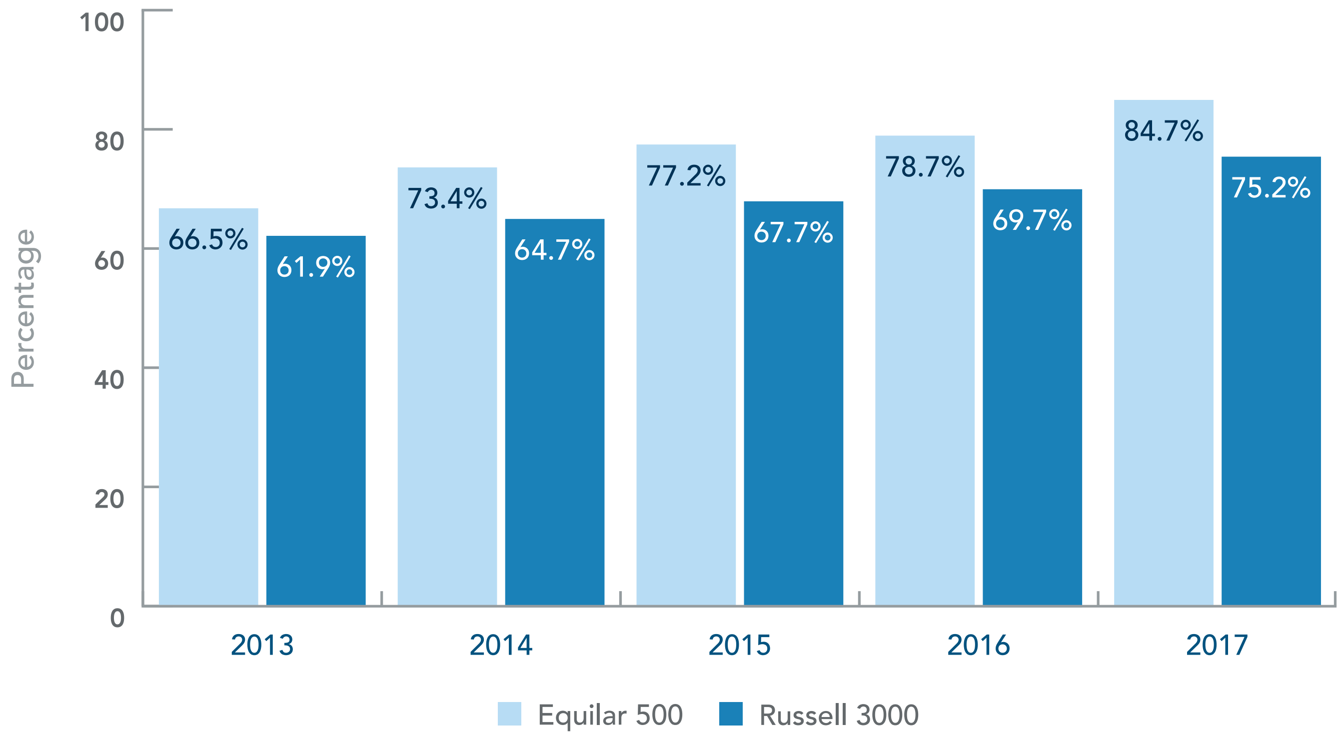
Figure 15b Russell 3000 Non-Executive and CEO-Chair Prevalence



Semler Brossy Commentary

These CEO-chair/lead director and CEO/non-executive chair structures help balance the roles of the CEO and the board and facilitate more effective board-management conversations. The non-executive chair structure can be particularly helpful for mentoring when a CEO is new and to allow the newer CEO to focus first on company strategy and operations. Sometimes, the non-executive chair role will transition over time to a lead director role in such scenarios. On an ongoing basis, the non-executive chairs or lead directors serve as the point person on the board for the independent directors and shareholders. Investors are increasingly asking for conversations with lead directors about governance issues.

Figure 16 CEO-Chair Paired With a Lead Director



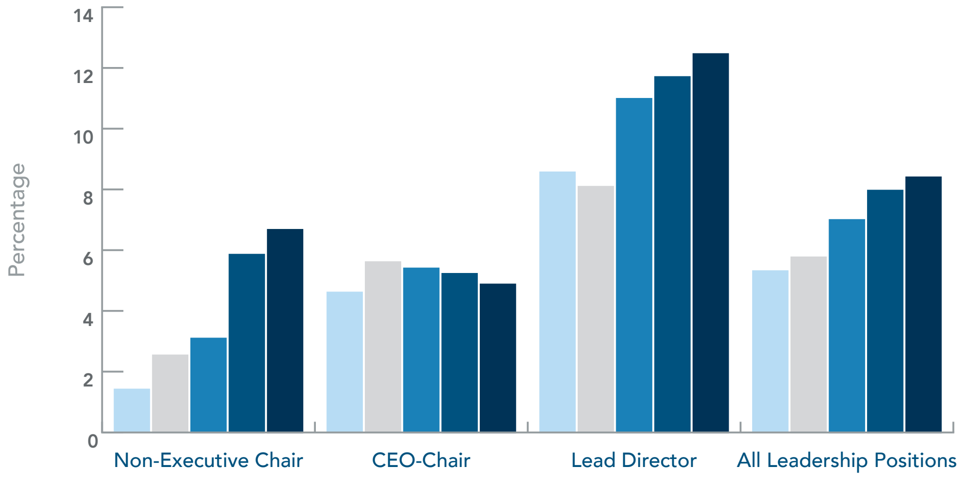
Data Points

- About 85% of CEO-chairs in the Equilar 500 were paired with a lead director vs. 75.2% in the Russell 3000 *(Fig. 16)*
- The Equilar 500 saw a greater percentage point increase in CEO-chairs paired with lead directors compared to the Russell 3000 over the past five years *(Fig. 16)*
- While the proportional increase in CEO-chairs with lead directors within both the Russell 3000 and Equilar 500 gradually slowed from 2013 to 2016, both indices experienced surges in 2017 *(Fig. 16)*
- If the current trends continue, by 2019 more than 80% of CEO-chairs will be paired with a lead director in the Russell 3000, and more than 90% of CEO-chairs will be paired with a lead director in the Equilar 500 *(Fig. 16)*

Data Points

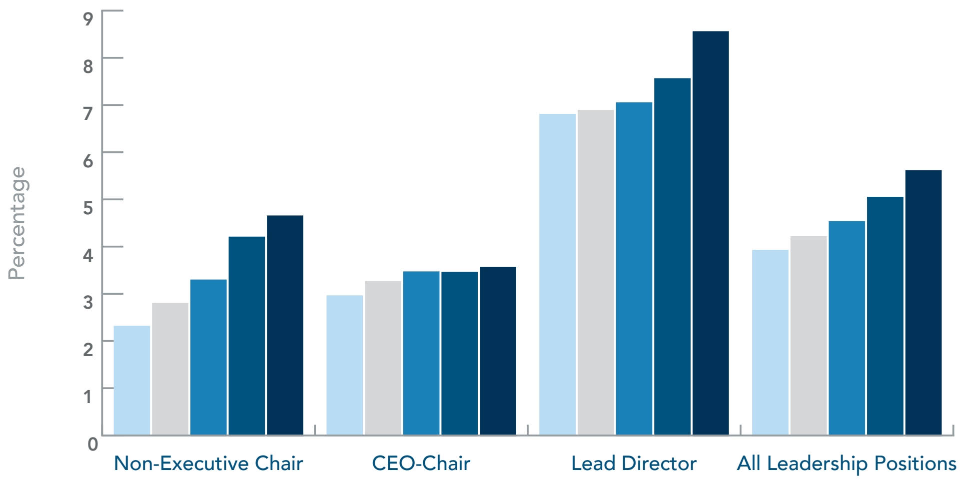
- While women serve in 20.9% and 16.0% of Equilar 500 and Russell 3000 board seats, respectively, only 8.4% of board leadership roles are occupied by women in the Equilar 500—that figure was 5.6% in the Russell 3000 in 2017 *(Figs. 17a and 17b)*
- 2016 was the first year in which there were more women serving as non-executive chairs than women serving as CEO-chairs within the Equilar 500 *(Fig. 17a)*
- The absolute number of women serving as CEO-chairs in the Equilar 500 was the same in 2017 as it was in 2013 *(Fig. 17a)*
- In each year since 2013, there were nine more women serving as non-executive chairs within the Russell 3000, except from 2015 to 2016 when there an additional 15 women took on that role *(Fig. 17b)*

Figure 17a Equilar 500 Women in Board Leadership Positions



	Non-Executive Chair	CEO-Chair	Lead Director	All Leadership Positions
2013	1.4%	4.6%	8.6%	5.3%
2014	2.5%	5.6%	8.1%	5.8%
2015	3.1%	5.4%	11.0%	7.0%
2016	5.8%	5.2%	11.7%	8.0%
2017	6.7%	4.9%	12.5%	8.4%

Figure 17b Russell 3000 Women in Board Leadership Positions



	Non-Executive Chair	CEO-Chair	Lead Director	All Leadership Positions
2013	2.3%	2.9%	6.8%	3.9%
2014	2.8%	3.2%	6.9%	4.2%
2015	3.3%	3.5%	7.0%	4.5%
2016	4.2%	3.4%	7.5%	5.0%
2017	4.6%	3.6%	8.5%	5.6%

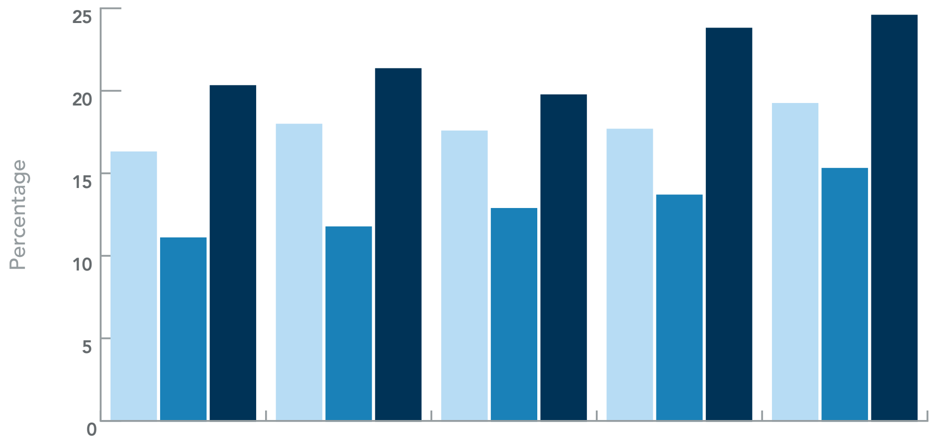
Semler Brossy Commentary

The lag is in part the result of women's lower tenure on boards since lead director and non-executive chair positions are frequently assumed by directors who have a history with the board and company. Boards can lay the groundwork to close this gap by continuing to increase the number of women on their boards and placing those women in committee leadership roles to better position them to be considered for board leadership roles in the future.

Data Points

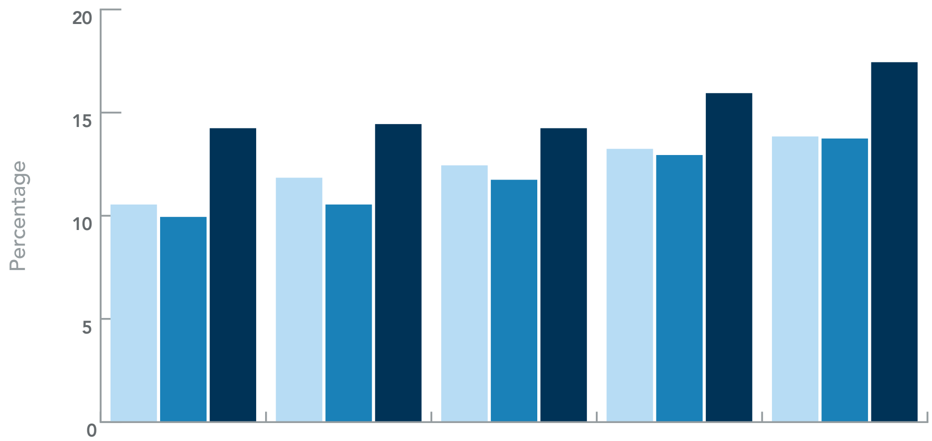
- In both the Equilar 500 and the Russell 3000, compensation committees have been the least likely to be chaired by women out of the three main board committees *(Figs. 18a and 18b)*
- In both indices, nominating/governance committees have been most likely to be chaired by women—in the Equilar 500, nearly 25% of such committees have women in the leadership position *(Figs. 18a and 18b)*
- In 2017, the number of women serving as chair of an Equilar 500 committee increased most for governance committees, when 25 more women chaired a committee compared to the previous year *(Fig. 18a)*
- The absolute number of women chairing compensation committees grew nearly 50% from 2016 to 2017 *(Fig. 18a)*

Figure 18a Equilar 500 Board Committees Chaired by Women



	2013	2014	2015	2016	2017
Audit	16.3%	17.9%	17.5%	17.6%	19.2%
Compensation	11.1%	11.7%	12.8%	13.7%	15.3%
Governance	20.3%	21.3%	19.7%	23.8%	24.6%

Figure 18b Russell 3000 Board Committees Chaired by Women

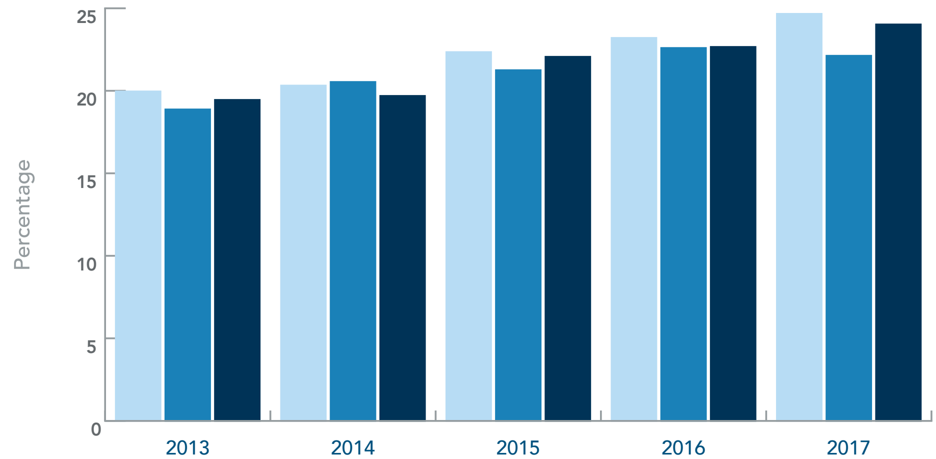


	2013	2014	2015	2016	2017
Audit	10.5%	11.8%	12.4%	13.2%	13.8%
Compensation	9.9%	10.5%	11.7%	12.9%	13.7%
Governance	14.2%	14.4%	14.2%	15.9%	17.4%

Data Points

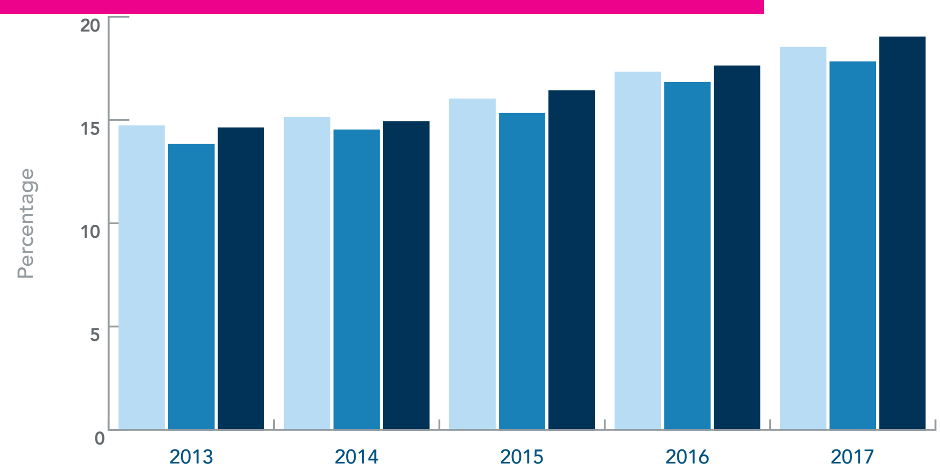
- In the Equilar 500, overall representation of female directors increased each year for each committee, with the exception of 2017 within compensation committees where women experienced a 0.5 percentage-point decline in prevalence from 2016 *(Fig. 19a)*
- Prevalence of women serving on committees has increased at a similar rate among directors in the Equilar 500 as compared to the Russell 3000, however, initial prevalence in 2013 within the Equilar 500 was far higher than it was in the Russell 3000 (Figs. 19a and 19b)
- If the current trends continue, by 2018 both audit committees and governance committees of Equilar 500 boards will comprise one-quarter female directors and by 2020, compensation committees will reach one-quarter representation by female directors *(Fig. 19a)*

Figure 19a Equilar 500 Women on Board Committees



	2013	2014	2015	2016	2017
Audit	20.0%	20.3%	22.3%	23.2%	24.7%
Compensation	18.9%	20.5%	21.2%	22.6%	22.1%
Governance	19.4%	19.7%	22.1%	22.7%	24.0%

Figure 19b Russell 3000 Women on Board Committees

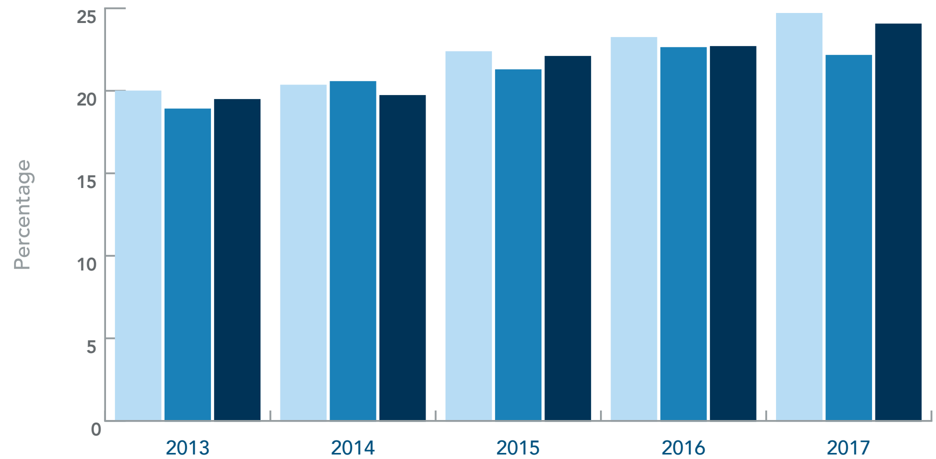


	2013	2014	2015	2016	2017
Audit	14.7%	15.1%	16.0%	17.3%	18.5%
Compensation	13.8%	14.5%	15.3%	16.8%	17.8%
Governance	14.6%	14.9%	16.4%	17.6%	19.0%

Data Points

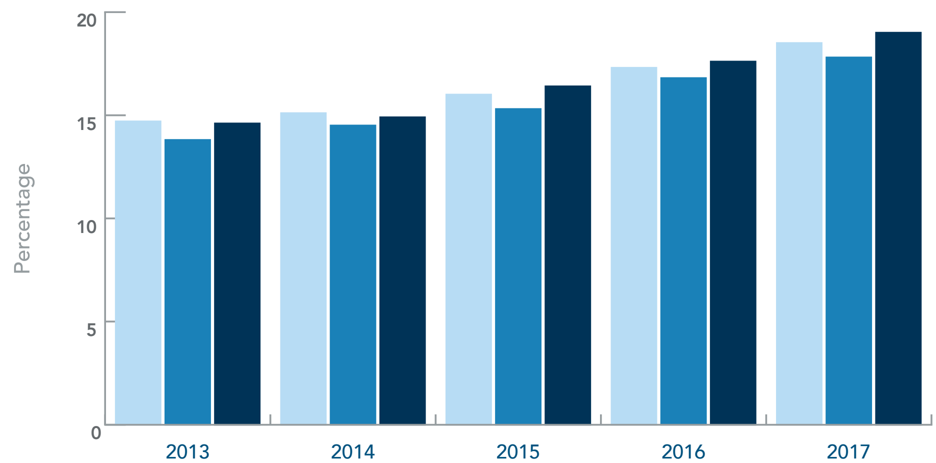
- New directors most commonly join the audit committee, while new directors join the compensation or governance committee in roughly equal proportions *(Figs. 20a and 20b)*
- The proportion of new directors serving on audit committees rose by about 21% since 2013 in the Equilar 500 while the proportion of new directors on compensation and governance committees fluctuated around the same levels *(Fig. 20a)*
- The overall proportion of new directors on Equilar 500 boards that served on governance committees fell about two percentage points in 2017 *(Fig. 20a)*
- The proportion of new directors that served on Russell 3000 committees increased marginally since 2013, averaging a 1.5 percentage point gain per committee *(Fig. 20b)*
- About one-quarter of new directors on Russell 3000 boards served on the compensation committee in all years of the study, while new directors on Equilar 500 boards never broke about 22% prevalence on compensation committees *(Figs. 20a and 20b)*
- More than one-third of new directors served audit committees in 2017 for both Equilar 500 and Russell 3000 boards *(Figs. 20a and 20b)*

Figure 20a Equilar 500 New Directors on Board Committees



	2013	2014	2015	2016	2017
Audit	28.7%	32.4%	32.8%	31.5%	34.8%
Compensation	19.3%	22.2%	20.8%	21.4%	19.5%
Governance	22.4%	22.2%	21.0%	23.4%	21.5%

Figure 20b Russell 3000 New Directors on Board Committees

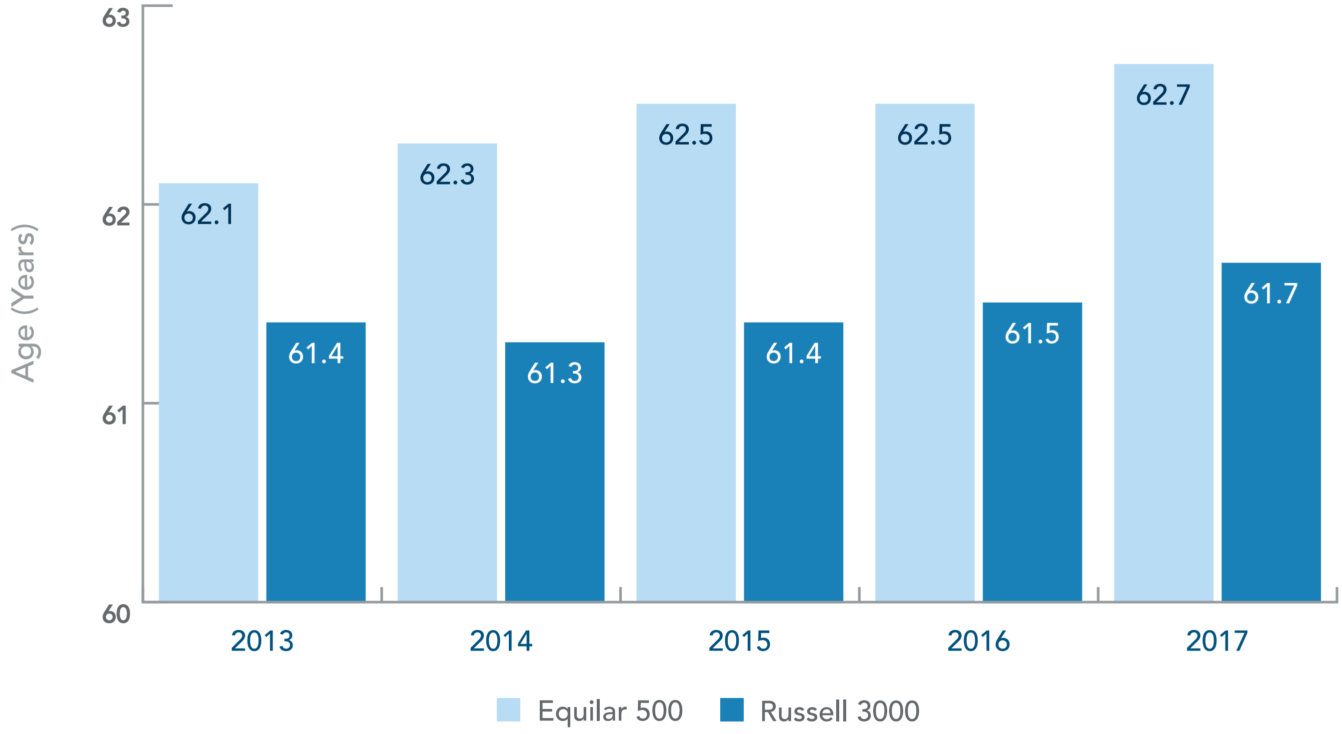


	2013	2014	2015	2016	2017
Audit	33.6%	35.8%	37.0%	35.8%	34.2%
Compensation	24.1%	27.1%	28.1%	26.4%	25.5%
Governance	21.3%	24.5%	25.2%	24.7%	23.8%

Director Attributes

Board Composition and Director Recruiting Trends

Figure 21 Average Director Age



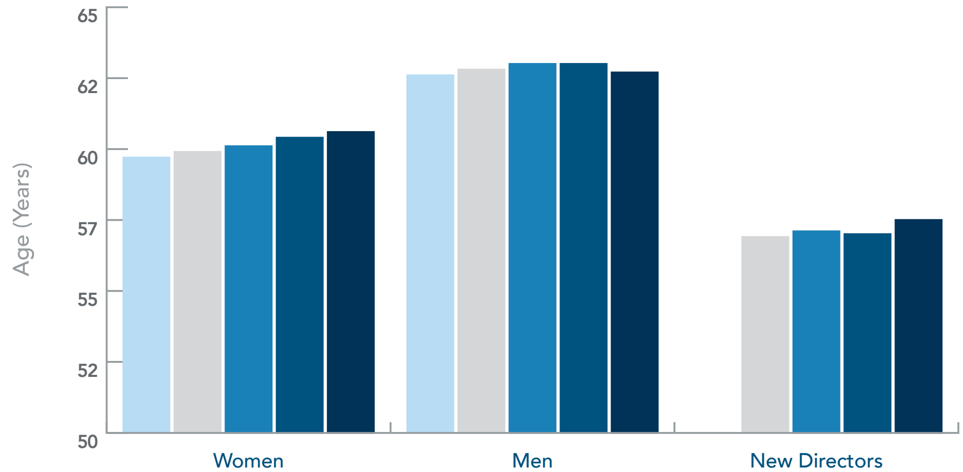
Data Points

- Average age for directors in both the Equilar 500 and Russell 3000 as a whole have been increasing over the past five years *(Fig. 21)*
- Average age for directors in the Equilar 500 was 62.7, more than half a year older than 2013 *(Fig. 21)*
- Russell 3000 directors were a full year younger than Equilar 500 directors on average *(Fig. 21)*

Data Points

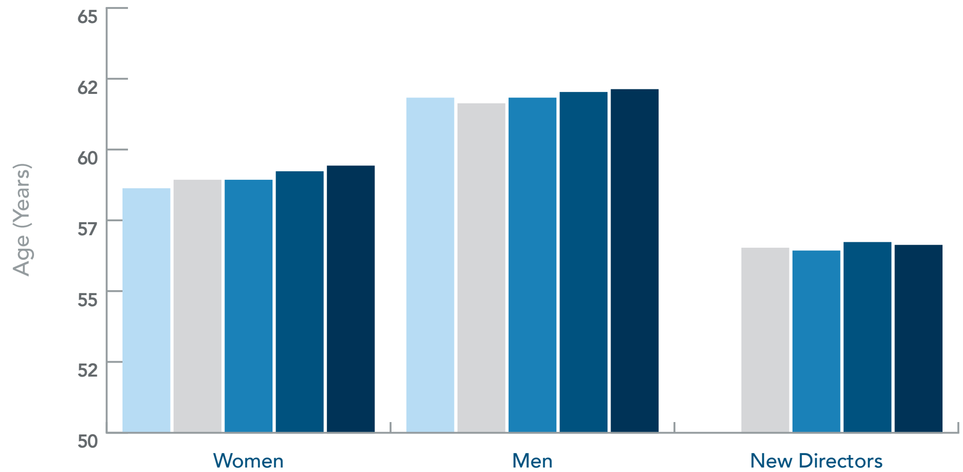
- Average age for Equilar 500 women directors has increased in each of the past five years while average age for men has fluctuated, but stayed consistent over the full study period *(Fig. 22a)*
- Average age for new directors in the Equilar 500 increased by more than half a year during the study period, while remaining relatively steady in the Russell 3000 *(Figs. 22a and 22b)*
- The average age of female directors increased nearly a full year in both the Equilar 500 and the Russell 3000 *(Figs. 22a and 22b)*

Figure 22a Equilar 500 Average Director Age by Gender and New Directors



	Women	Men	New Directors
2013	59.7	62.6	N/A
2014	59.9	62.8	56.9
2015	60.1	63.0	57.1
2016	60.4	63.0	57.0
2017	60.6	62.7	57.5

Figure 22b Russell 3000 Average Director Age by Gender and New Directors



	Women	Men	New Directors
2013	58.6	61.8	N/A
2014	58.9	61.6	56.5
2015	58.9	61.8	56.4
2016	59.2	62.0	56.7
2017	59.4	62.1	56.6

Data Points

- ▶ Median director tenure for the Equilar 500 decreased by more than half a year from 2015 to 2017 *(Fig. 23a)*
- ▶ Median director tenure has dropped at a faster rate than the average tenure in the Equilar 500 over the last five years *(Fig. 23a)*
- ▶ The average tenure of directors at Russell 3000 companies has decreased every year—potentially signaling the willingness of companies to consider board refreshment *(Fig. 23b)*

Figure 23a Equilar 500 Director Tenure

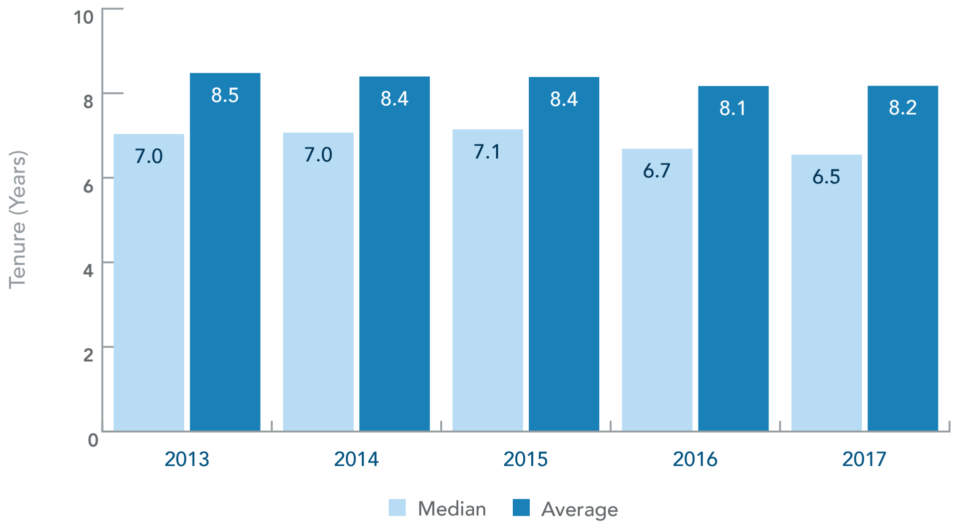
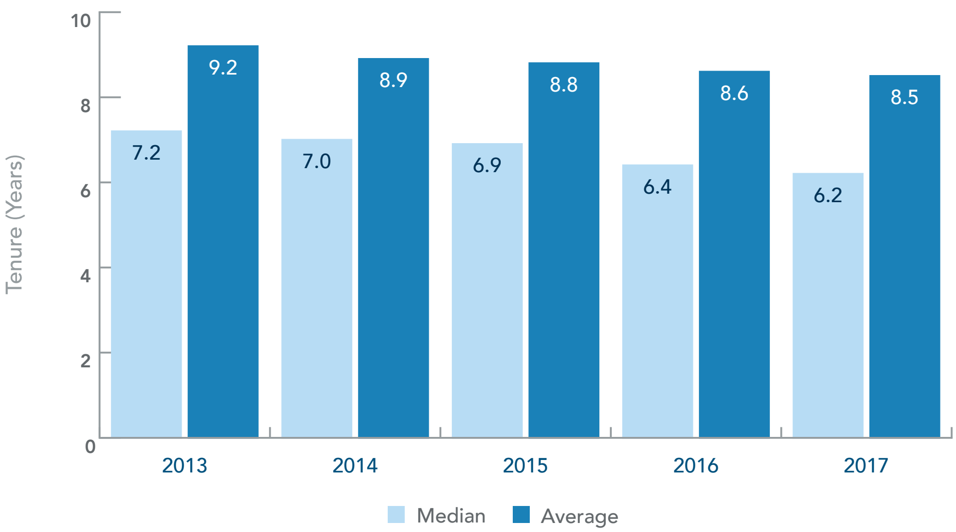


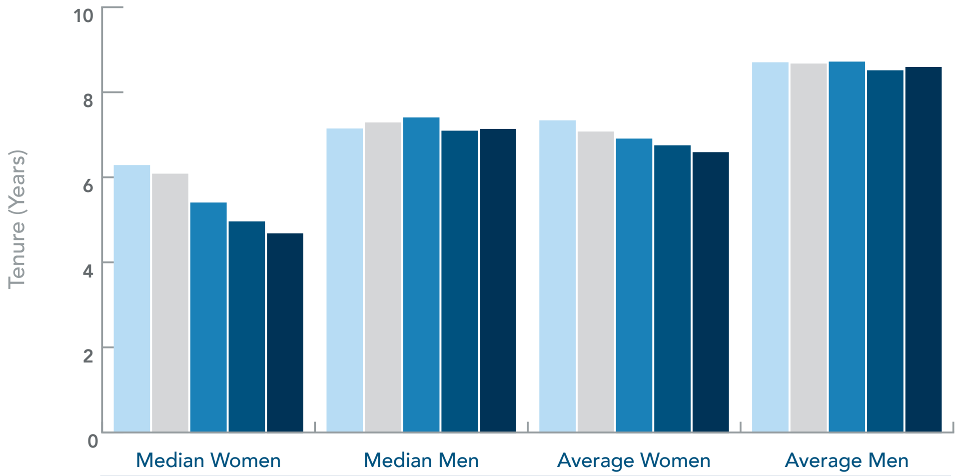
Figure 23b Russell 3000 Director Tenure



Data Points

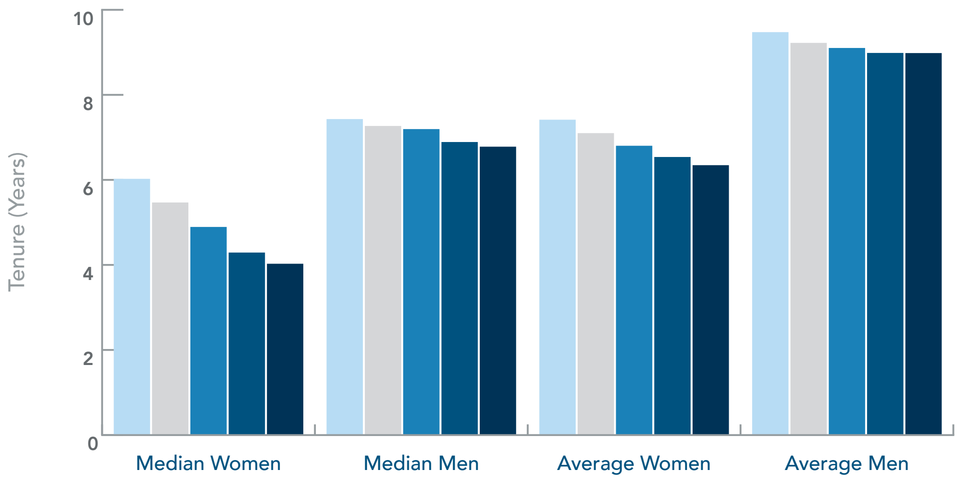
- The median tenure of women on both Equilar 500 and Russell 3000 boards has fallen by 1.6 years as boards add women to their ranks while median tenure for men remained relatively consistent *(Figs. 24a and 24b)*
- In the Equilar 500, tenure for men has stayed relatively steady across all five years of the study *(Fig. 24a)*
- The median tenure of female directors in the Russell 3000 has seen a decrease of two full years since 2013 *(Fig. 24b)*

Figure 24a Equilar 500 Director Tenure by Gender



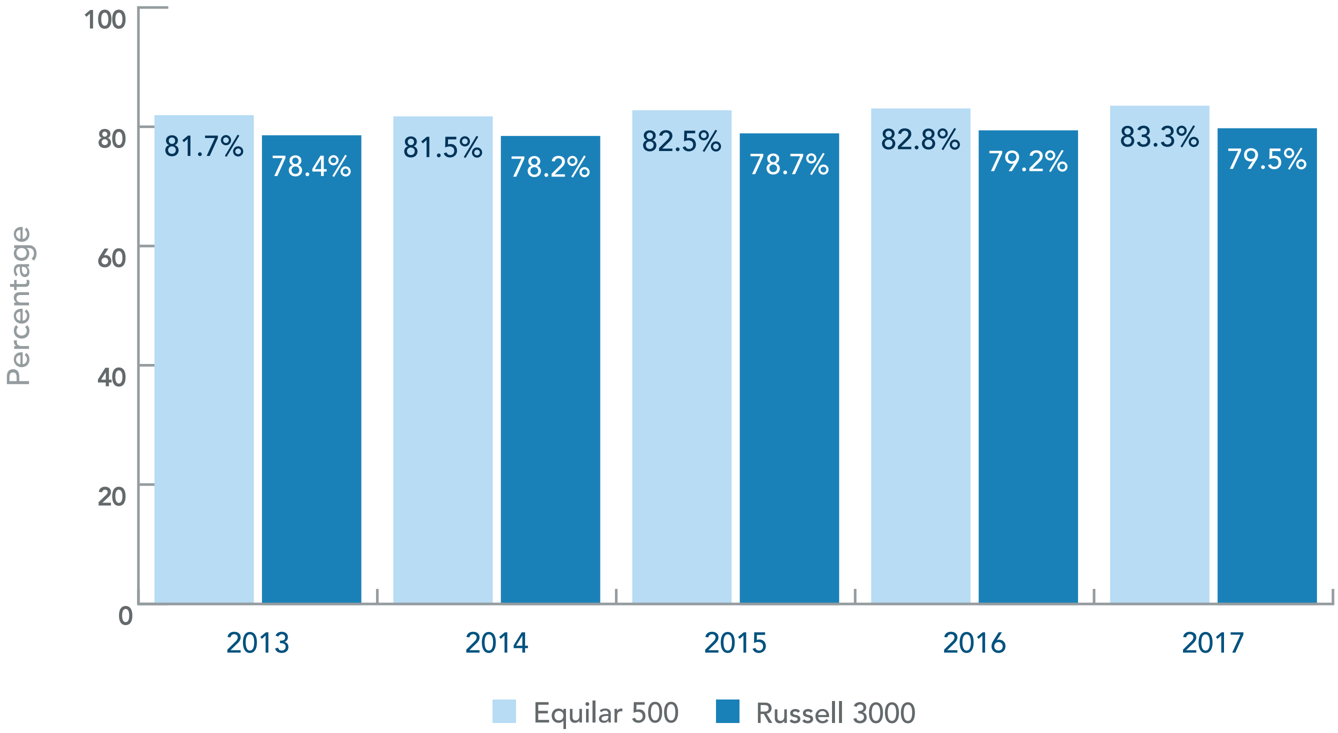
	Median Women	Median Men	Average Women	Average Men
2013	6.3	7.1	7.3	8.7
2014	6.1	7.3	7.1	8.7
2015	5.4	7.4	6.9	8.7
2016	4.9	7.1	6.7	8.5
2017	4.7	7.1	6.6	8.6

Figure 24b Russell 3000 Director Tenure by Gender



	Median Women	Median Men	Average Women	Average Men
2013	6.0	7.4	7.4	9.5
2014	5.4	7.2	7.1	9.2
2015	4.9	7.2	6.8	9.1
2016	4.3	6.9	6.5	9.0
2017	4.0	6.8	6.3	9.0

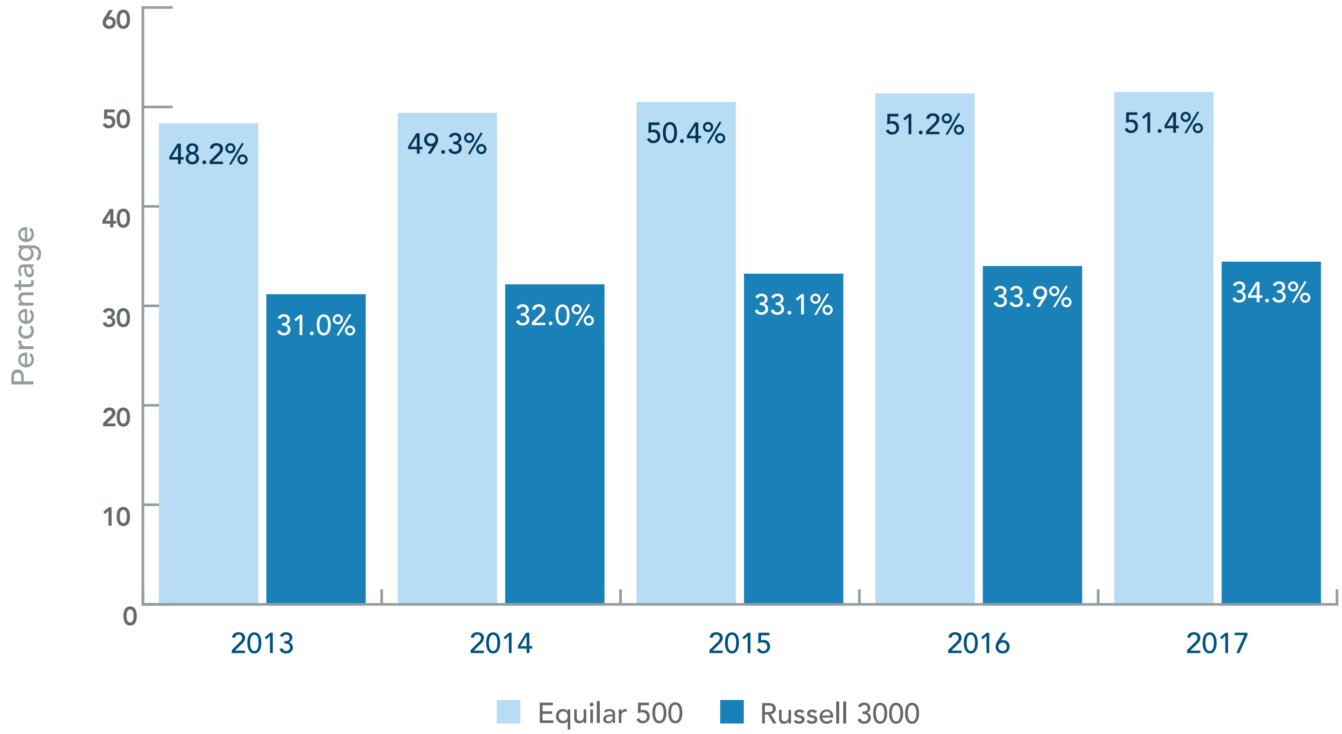
Figure 25 Independent Directors



Data Points

- In conjunction with the effort to separate board membership from employment at the company, both the Equilar 500 and the Russell 3000 have had an increase in the overall amount of independent directors *(Fig. 25)*
- This growth has been fairly steady over the past four years for both indices after dropping slightly from 2013 to 2014 *(Fig. 25)*

Figure 26 Board Seats Occupied by Multi-Boarded Directors



Data Points

- More than half of all board seats in the Equilar 500 are occupied by directors that serve more than one board, a figure that has been increasing steadily since 2013— however, the change year over year has also slowed over that time frame *(Fig. 26)*
- The proportion of seats occupied by multi-boarded directors within the Russell 3000 was consistently beneath the Equilar 500 and now stands at more than one-third of all board seats *(Fig. 26)*

Data Points

- In absolute terms as well as proportionally, the number of women serving on multiple boards has increased more than the number of men serving on multiple boards within the Equilar 500 *(Fig. 27a)*
- Year over year, women directors have consistently been more likely to serve on multiple boards than their male colleagues in the Equilar 500 *(Fig. 27a)*
- For the first year, in 2017, the proportion of women in the Equilar 500 serving on multiple boards saw a slight decrease, while the proportion of men serving on multiple boards continued to rise *(Fig. 27a)*
- As within the Equilar 500, each year women on Russell 3000 boards have been more likely to serve on multiple boards than their male colleagues *(Figs. 27a and 27b)*

Figure 27a Equilar 500 Multi-Boarded Directors by Gender

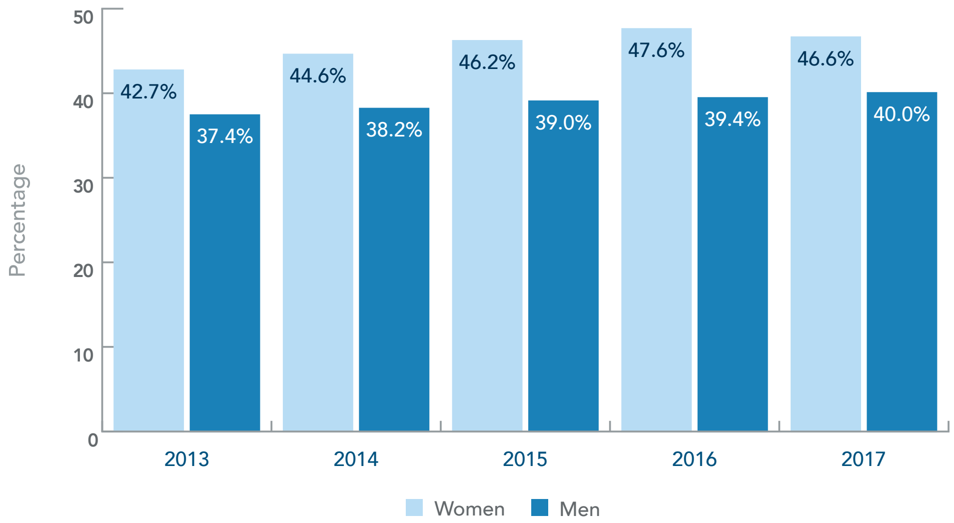
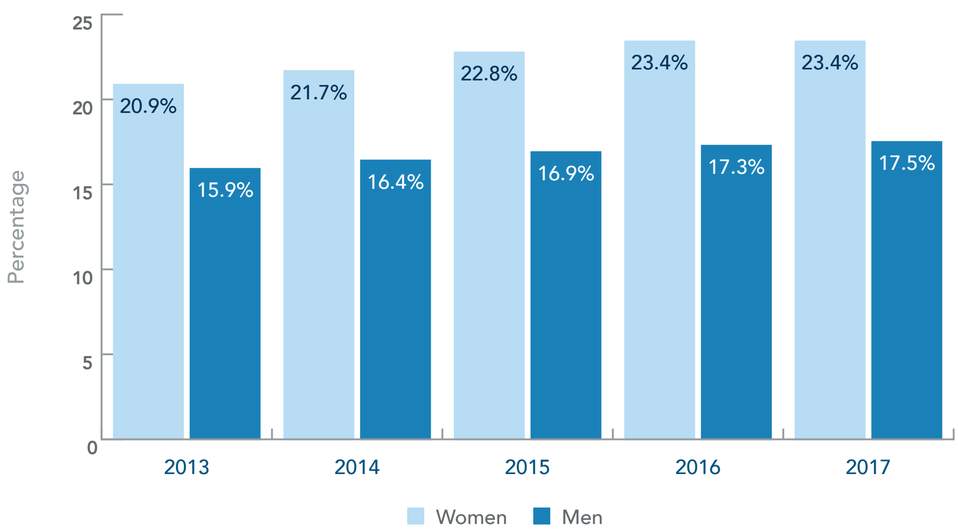


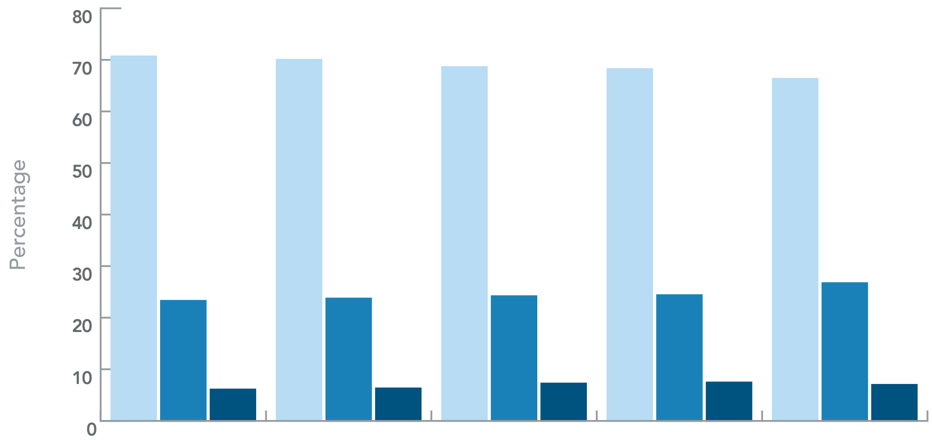
Figure 27b Russell 3000 Multi-Boarded Directors by Gender



Data Points

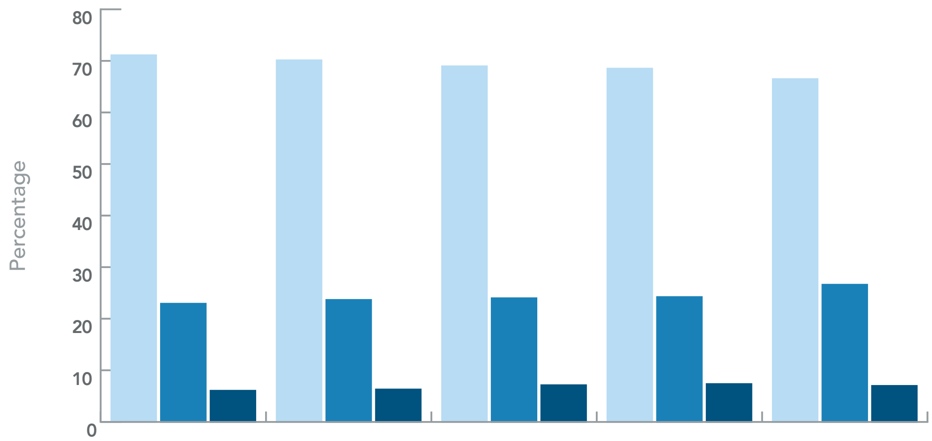
- Generally, the proportion of multi-boarded directors who serve on two boards has decreased while the proportion serving on three or more boards has increased *(Figs. 28a and 28b)*
- More than one-quarter of multi-boarded Equilar 500 directors serve at least three boards *(Fig. 28a)*
- From 2016 to 2017, the greatest decline in multi-boarded directors serving on two boards and the greatest increase in directors serving on three boards occurred *(Fig. 28a)*
- 2017 saw the greatest proportional increase in multi-boarded directors serving on three boards *(Fig. 28b)*
- The proportion of multi-boarded directors serving on two boards fell consistently each year over the last five years *(Figs. 28a and 28b)*

Figure 28a Equilar 500 Multi-Boarded Directors Distribution by Seats



	2013	2014	2015	2016	2017
Two Boards	70.7%	70.0%	68.6%	68.2%	66.3%
Three Boards	23.3%	23.7%	24.2%	24.4%	26.7%
Four+ Boards	6.1%	6.3%	7.2%	7.4%	7.0%

Figure 28b Russell 3000 Multi-Boarded Directors Distribution by Seats



	2013	2014	2015	2016	2017
Two Boards	71.1%	70.1%	68.9%	68.5%	66.5%
Three Boards	22.9%	23.6%	24.0%	24.2%	26.6%
Four+ Boards	6.0%	6.3%	7.1%	7.3%	7.0%

Data Points

- There has been a consistent increase in the percentage of directors with CEO experience in the Russell 3000 in each passing year, while that attribute among Equilar 500 directors has seen a less dramatic rise *(Fig. 29a)*
- Nearly half of all male directors in the Equilar 500 had CEO experience in 2017 *(Fig. 29b)*
- Only 15% of female directors in the Equilar 500 and about 11% in the Russell 3000 have CEO experience *(Fig. 29b)*

Figure 29a Directors with CEO Experience

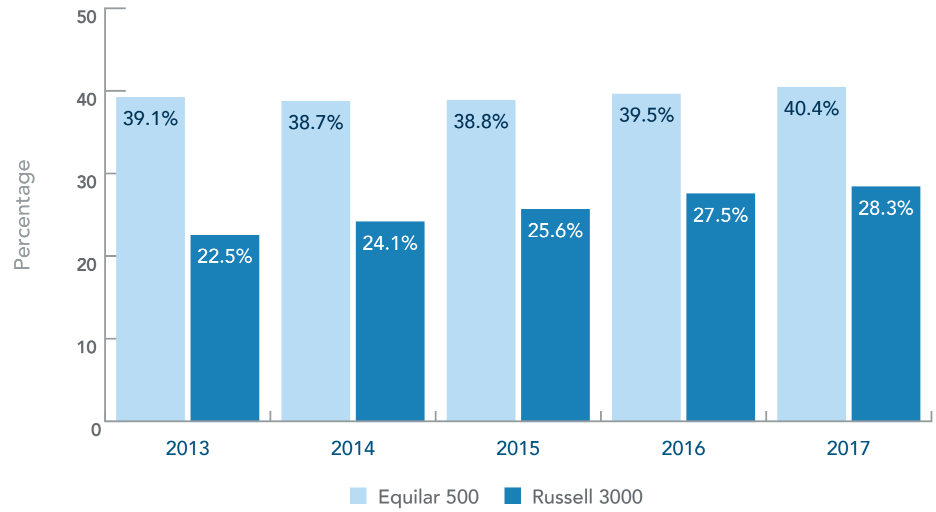
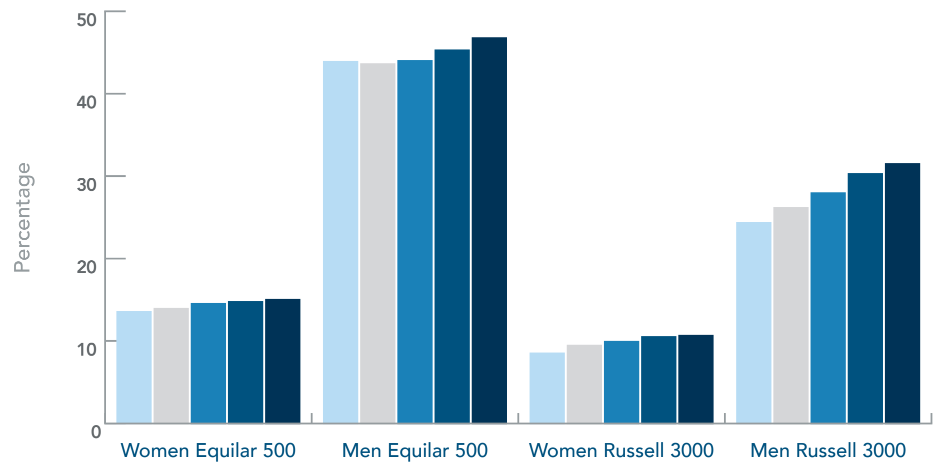
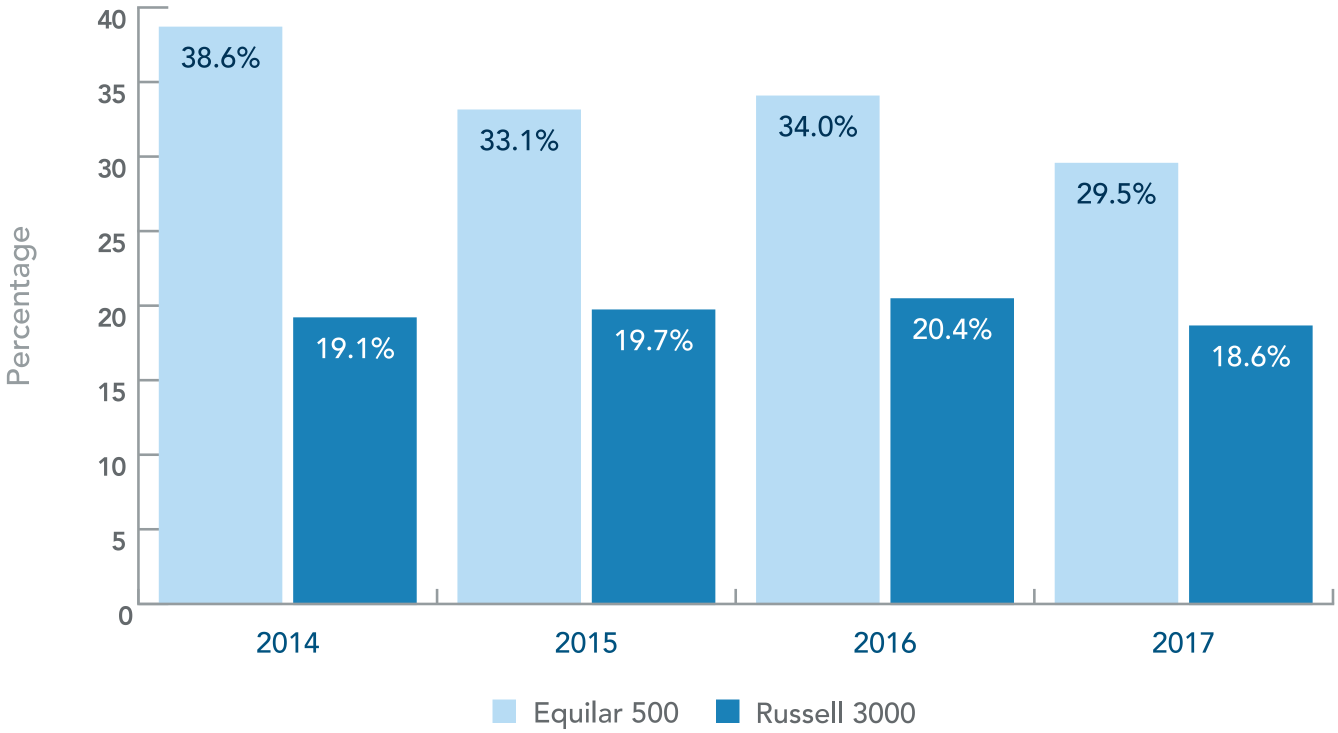


Figure 29b Directors with CEO Experience by Gender



	Women Equilar 500	Men Equilar 500	Women Russell 3000	Men Russell 3000
2013	13.5%	43.9%	8.5%	24.3%
2014	13.9%	43.6%	9.4%	26.1%
2015	14.5%	44.0%	9.9%	27.9%
2016	14.7%	45.3%	10.5%	30.3%
2017	15.0%	46.7%	10.6%	31.5%

Figure 30 New Directors with CEO Experience



Data Points

- Since 2014, new directors with CEO experience have become far less common in the Equilar 500, while the Russell 3000 has not seen as dramatic a change in new directors with CEO experience *(Fig. 30)*
- The decrease in new directors with CEO experience potentially has to do with a movement towards hiring younger directors and directors with more versatile and specialized experiences

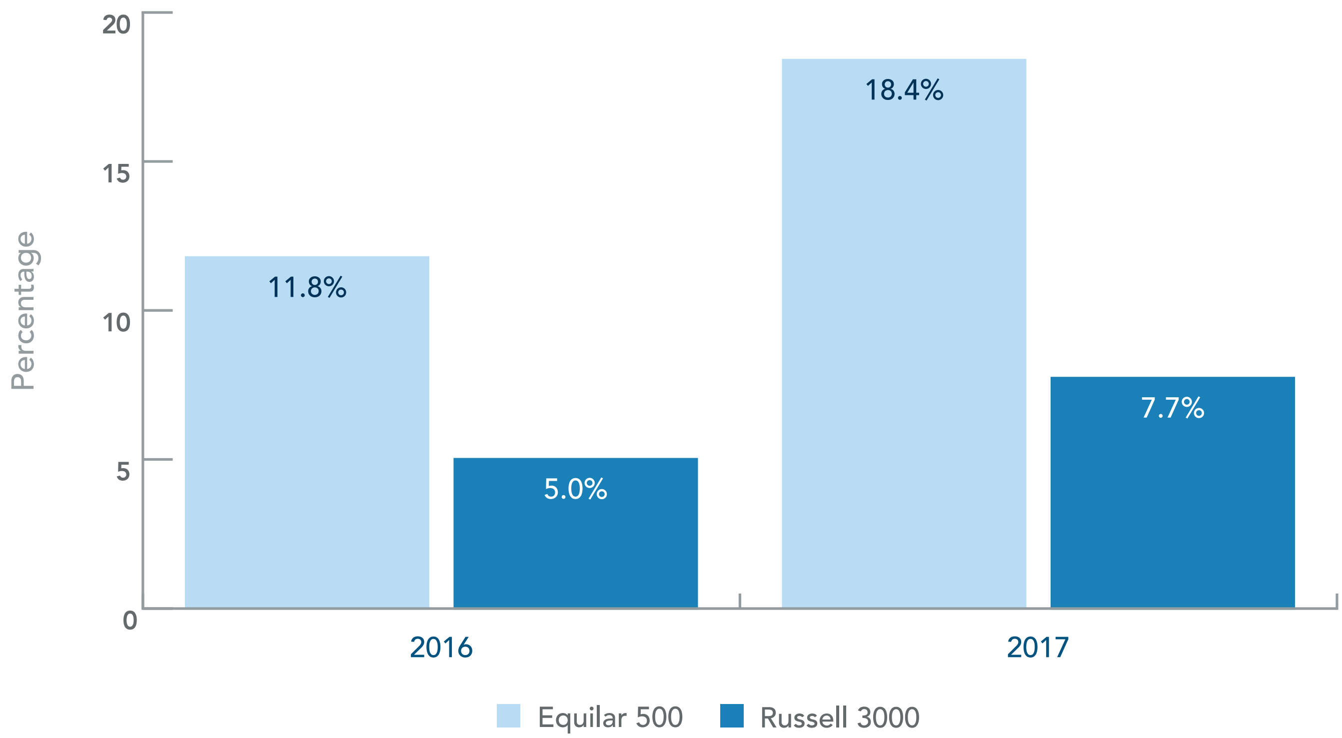
Semler Brossy Commentary

There is clearly an interest in expanding board candidate profiles to include more specialized experiences targeted to company priorities. In addition, as boards seek more diverse candidates, some of these candidates have not had CEO roles, but still have valuable experiences and expertise to contribute.

KPMG Commentary

Anecdotally, we hear that more and more, board candidates do not need to be a CEO if they are well-rounded business leaders and also have an expertise that is highly in demand, such as disruptive technology, cyber or international experience relevant to the company's targeted geographies. This supports the Equilar 500 data showing a decrease in the percentage of new directors with CEO experience. It is also consistent with a slow but steady increase in diversity, as companies are using a wide lens to recruit qualified, diverse directors.

Figure 31 Board Skills Matrix Disclosure



Data Points

- About one in six companies in the Equilar 500 included a board skills matrix in their 2017 proxy statements, up from about one in eight in 2016 *(Fig. 31)*
- Just 7.7% of Russell 3000 companies included a skills matrix in their 2017 proxy, up from 5.0% in 2016 *(Fig. 31)*
- Corporate leadership and finance were the most commonly listed skills for Equilar 500 directors, disclosed for more than 90% of directors included in a matrix, with the third most common skill, business development, noted for nearly 87% of directors *(Fig. 32, on following page)*
- Of Equilar 500 directors disclosed in a skills matrix, 77.1% were flagged with expertise in technology while about 68% were credited with expertise in international business and operational experience *(Fig. 32)*
- More than half of the Equilar 500 directors included in a board skills matrix were credited with corporate leadership, finance, business development, technology, international, operational, public policy, and legal and governance experience *(Fig. 32)*
- Diversity was included as an attribute for 18.8% of directors included in matrices *(Fig. 32)*

Figure 32 Equilar 500 Board Skills Disclosed in 2017 Skills Matrices

Disclosed Skill or Attribute	Percentage of Directors
Corporate Leadership	94.8%
Finance	93.8%
Business Development	86.5%
Technology	77.1%
International	68.8%
Operations	67.7%
Government Affairs/Public Policy	58.3%
Legal and Governance	57.3%
Risk Management	43.8%
Board Leadership	37.5%
Public Company Experience	33.3%
Strategy	24.0%
Transaction Experience	19.8%
Diversity	18.8%
HR and Talent Development	18.8%
Research	13.5%
Healthcare	12.5%
Retail	12.5%
Financial Services	10.4%
R&D and Innovation	10.4%

Semler Brossy Commentary

Board skills matrices are a good resource for shareholders and the board to get a quick picture of the distribution of skill sets across the board. While board succession discussions go much deeper than the board skills matrices are able to portray, the high level messages regarding strengths, gaps, and balance can be good conversation starters for both internal and investor conversations.

KPMG Commentary

Investors are increasingly interested in both public disclosure and appropriate private engagement that will enable them to assess the degree of alignment between the skillsets on the board and the company's long-term needs, as well as the board's processes for evaluations and follow-up action. Many companies have long used board skill matrices for their own internal planning, and in light of investor interest, it is not surprising that the number of companies that now include these in their proxy disclosure is increasing.

The Women Corporate Directors Foundation 2017 Thought Leadership Commission Report, "The Visionary Board at Work: Developing a Culture of Leadership," found that forward-looking boards are using shareholder engagement as a two-way street, not only to communicate to investors but also to solicit the investors' views of the board's effectiveness. The report goes on to discuss a potential implementation strategy for continuous improvement, of building into the board matrix an assessment of individual director strengths and weaknesses—with respect to soft skills as well as expertise—that can help identify gaps and inform learning and continuous improvement opportunities as well as refreshment. While investors would likely recognize that an exercise such as this would be sensitive and the results would need to remain confidential, disclosure of the process would likely go a long way toward boosting investor confidence.

EQUILAR

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