

# Trustees United.

safe corporate cultures ★ thriving companies ★ successful portfolios

TRUSTEES UNITED FOR LONG-TERM VALUE

The rise of the #MeToo movement has forced investors to consider the extent to which sexual harassment and misconduct in the workplace create material risks to investment portfolios. Given that intangibles now account for the lion's share of the value of most companies, these risks can manifest in many unpredictable ways.

The Weinstein Company's declaration of bankruptcy and Wynn Resorts' sudden loss of \$2 billion in value in the wake of allegations against these companies' executives are only the most high-profile illustrations of this looming threat. Time Magazine honored as "Silence Breakers" women who worked in industries ranging from office buildings and hotels to tech and entertainment. In most cases, as institutional investors, we simply do not know how severe these risks may be, as silence is endemic. Without a proper accounting of how our companies and managers are attempting to handle this issue, we will remain in the dark.

Our concern is not only about the immediate fall in company value. Less visible, but no less real, are the opportunities to create long-term value that have been missed because of the adverse impact sexual harassment and misconduct have on corporate culture and human capital management practices.

Long-term value creation requires companies to fully consider the business risks and opportunities they may face and to take action to manage both. As fiduciaries, we recognize that the recent wave of sexual harassment and misconduct incidents leave companies open to significant operational, financial and reputational risks. These concerns have forced us to look more closely at issues like gender, racial and ethnic diversity and to demand transparency and disclosure of how our portfolio companies are mitigating these risks.

It is, therefore, incumbent upon us as fiduciaries to take steps to ensure that companies and managers across asset classes strive to mitigate these risks.

We stand in support of the following principles to guide investors' actions to manage risk on this issue:

1. Corporations must ensure a work environment free of sexual harassment and violence. Boards must support the right of employees, both individually and collectively, to safely bring forward claims of sexual harassment and violence.

Company directors should publicly share due diligence processes used to respond to sexual harassment and violence complaints filed by all employees, including contingent, temporary, and subcontracted workers.

2. The use of non-disclosure agreements and forced arbitration policies reinforce the silence that perpetuates harassment. Transparency in reporting sexual harassment and misconduct settlement costs to investors can help change corporate culture and limit the potential for significant exposure to financial and reputational risk.
3. Companies must prioritize diversity at all levels, including the board of directors and C-suite, to take advantage of the opportunities diversity affords and to be more attuned to the risks associated with harassment, misconduct and discrimination. Diverse boards which reflect the racial and gender composition of a company's workforce can help to create organizational cultures that prevent sexual harassment and related risks from materializing.
4. Policies and agreements, such as collective bargaining agreements and responsible contractor policies, that protect workers' rights provide mechanisms for risk mitigation by addressing power imbalances that often facilitate abuse, harassment and discrimination and by providing clear mechanisms for redress when incidents occur.

Investment industry actors, including our own institutions, investment managers and service providers, must move to implement the above principles as part of their fiduciary responsibility.

We, the undersigned, support these principles as individuals. We invite our pension fund trustee colleagues to join us.