

WHEREAS: US Physical Therapy, Inc. has only one woman on its Board of Directors and racial and ethnic diversity is undeterminable.

We believe that diversity, inclusive of gender and race, is a critical attribute of a well-functioning board and a measure of sound corporate governance.

Corporate leaders recognize the strong business case for board diversity. The Guiding Principles of Corporate Governance of the Business Roundtable, an influential association of chief executives, state: “Boards should develop a framework for identifying appropriately diverse candidates that allows the nominating/corporate governance committee to consider women, minorities and others with diverse backgrounds as candidates for each open board seat.”¹ Benefits associated with board and management diversity include a larger candidate pool from which to pick top talent, better understanding of consumer preferences, a stronger mix of leadership skills, and improved risk management.

Numerous institutional investors have updated their proxy voting guidelines to reflect their belief that diversity on boards, as well as in management, is an indicator of good corporate governance. BlackRock, the world’s largest asset manager, published in 2020 investment stewardship guidelines that state, “If there is no progress on enhancing diversity at the board level within a reasonable time frame, we may hold nominating and/or governance committees accountable for an apparent lack of commitment to board effectiveness. Deliberate action needs to be taken by boards with a lack of diversity.”² State and city pension plans across the country have adopted proxy voting policies with minimum thresholds for board diversity.

Legislation mandating board diversity has arrived in the U.S. California legislation enacted in 2018 mandates gender diversity on the boards of companies with principal executive offices in that state and other states and municipalities are following suit. In 2020, California signed into law a similar mandate to increase racial and ethnic representation. Potential regulatory action seeking disclosure of racial, ethnic, and gender diversity is also under consideration at the federal level.

Despite recent progress, women and people of color remain significantly underrepresented on U.S. corporate boards. Women account for 21.1 percent of the directorships in the Russell 3000, up slightly from 20.7 percent a year ago.³ Among board members of Russell 3000 companies whose race was identified, non-white directors represent less than 11 percent.⁴ Continued progress on board diversity requires serious attention to the board search process and board refreshment.

Resolved: Shareholders request that the Board of Directors prepare a report by September 2021, at reasonable expense and omitting proprietary information, on steps US Physical Therapy, Inc. is taking to enhance board diversity, such as:

1. Embedding a commitment to diversity inclusive of gender, race, and ethnicity in governance documents;
2. Committing publicly to include women and people of color in each candidate pool for board and senior leadership seats; and
3. Disclosing in annual proxy statements the gender, racial, and ethnic composition of the board.

We believe this report will foster Board accountability on this issue.

¹ <https://s3.amazonaws.com/brt.org/Principles-of-Corporate-Governance-2016.pdf>.

² <https://www.blackrock.com/corporate/literature/publication/blk-commentary-engaging-on-diversity.pdf>

³ ISS 2020 Proxy Season Review

⁴ ISS Analytics U.S. Board Diversity Trends in 2019