



MIDWEST INVESTORS DIVERSITY
I N I T I A T I V E

March 12, 2019

James L. Wainscott
Chairperson - Corporate Governance and Nominating Committee
Parker Hannifin Corporation
6035 Parkland Blvd
Cleveland, OH 44124-4141

Dear Mr. Wainscott,

On behalf of the investors in the Midwest Investors Diversity Initiative¹ (MIDI) we are writing to encourage Parker Hannifin Corporation (“Parker” or “Company”) to strengthen its processes regarding the consideration of diverse candidates, inclusive of gender, race and ethnicity, when searching for new board of director nominees. As long-term investors in the Company, we believe diversity is an important attribute of a well-functioning board, and an indicator of sound corporate governance. Furthermore, as Midwest-based investors we have a regional interest in portfolio companies in the states in which we reside.

MIDI is a 10-member investor coalition formed in 2016 whose work centers on increasing board diversity at companies that are headquartered in the Midwest. The investors engage with companies to create long-term value by adopting best practices for board diversity. This includes encouraging companies to establish search policies that consider female and minority candidates for every open board seat, also known as the “Rooney Rule.” MIDI has developed tools to help companies enhance their search policies including the “Diverse Search Toolkit”² and “Examples of Diverse Candidate Search Language.”³ MIDI’s engagements have resulted in 16 companies adopting diverse candidate search policies; six of these companies have appointed women and minorities to their board of directors.⁴

MIDI is aware that Parker Hannifin Corporation currently has no ethnic or racially diverse directors on the board. The Company has added new directors in the past ten years, providing multiple opportunities to strengthen the board by nominating racial and ethnic minority candidates. Furthermore, research from Equilar and ISS shows that the Company lags its peers with respect to board gender diversity.

After reviewing the Company’s committee charters, corporate governance guidelines, and proxy statements, MIDI believes that the candidate search policy could be stronger when it comes to considering diverse candidates. Specifically, while the proxy statement affirms that, “The Board has no formal policy regarding diversity,” it does highlight the Company’s belief that diversity is an “essential element of Board effectiveness.”⁵

We believe that Parker Hannifin Corporation has an opportunity to uphold this belief by instituting a formal policy on a diverse search process. We specifically request that the Corporate Governance and Nominating Committee (the “Committee”) formally adopt a policy requiring director searches to include women and minorities in the initial list of qualified candidates for every open board seat. Below is sample language that serves as a guide for drafting a diverse search policy:

Require that the Initial List of candidates from which new management–supported director nominees are chosen by the Corporate Governance and Nominating Committee include, but need not be limited to, qualified women and minority candidates. The Policy provides that any third-party consultant asked to furnish an Initial List will include such candidates.

Adopting a policy that requires the consideration of women and minority candidates for every open director seat enhances the nomination process, and assists the Committee in developing a diverse Board. A 2016 study published by the *Harvard Business Review* found that including more than one woman or minority in a finalist pool changes the status quo to help combat unconscious bias among interviewers. The researchers found that the odds of hiring a woman were 79 times greater when there were at least two women in the finalist pool, and the odds of hiring a minority were 193 times greater when there were at least two minority candidates in the finalist pool.⁶

In addition, MIDI encourages broadening the search for qualified candidates to non-executive corporate positions and non-traditional environments such as government, academic or non-profit organizations. In our view, many companies inadvertently narrow the candidate pool in new director searches by only considering CEOs and C-Suite nominees. Given that roughly 72% of CEOs on the Fortune 500 are white and male,⁷ boards with “prior executive experience” policies are less likely to select females and minorities simply because there are less of these candidates to choose from. Looking beyond the C-Suite allows companies to augment their candidate pool with more diverse candidates.

There is a general consensus among academics, industry specialists, and financial analysts that a diverse board creates shareholder value.^{8,9,10} In a recent McKinsey study, “Companies in the top quartile for gender diversity on their executive teams were 21% more likely to experience above-average profitability than companies in the fourth quartile.”¹¹ Furthermore, McKinsey found, “Companies in the top quartile for racial and ethnic diversity are 33% more likely to outperform on profitability than companies in the bottom quartile.”¹² Research shows that Parker Hannifin Corporation is lagging behind peers in Total Shareholder Return (TSR) performance.¹³

Diverse search policies have been adopted by the Nominating and Governance Committees of Amazon, Facebook, Intel, Costco Wholesale, Home Depot, Oracle, McDonald’s, Marten Transport, Marathon Petroleum, and United Continental. Additionally, we recognize that key leaders in the business community support this policy direction. In its 2016 *Principles of Corporate Governance*, the Business Roundtable calls on boards to “develop a framework for identifying appropriately diverse candidates that allows the nominating/governance committee to consider women, minorities, and others with diverse backgrounds as candidates for each open board seat.”¹⁴

MIDI would benefit from a deeper understanding of the Board’s practices and policies related to director diversity, and Parker Hannifin Corporation’s views on the suggestions we have proposed. We would appreciate an opportunity to meet with you and other directors, as well as a written response to this letter by April 12, 2019. Please contact Rekha Vaitla, Analyst - Corporate Engagement and Investment Operations, Illinois State Treasurer’s Office, 100 W Randolph, Suite 15-600, Chicago, IL 60601, rvaitla@illinoistreasurer.gov, 312-814-8979.

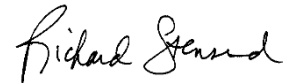
Sincerely,



Michael Frerichs, Illinois State
Treasurer



Patricia Brammer, Corporate
Governance Officer, Ohio Public
Employees Retirement System



Richard Stensrud, Executive
Director of the School
Employees Retirement System
of Ohio



Maureen O'Brien, Vice
President and Corporate
Governance Director, Segal
Marco Advisors



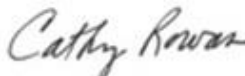
Bill Dempsey, Board Chair,
SEIU Master Trust



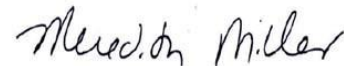
Christopher Cox, Associate
Director, Seventh Generation
Interfaith Coalition for
Responsible Investment



Robert H. Scarlett, Trustee,
Sundance Family Foundation



Cathy Rowan, Director of
Socially Responsible
Investments, Trinity Health



Meredith Miller, Chief Corporate
Governance Officer, UAW
Retiree Medical Benefits Trust



Anita Green, Director,
Sustainable Investment
Strategies, Wespath Benefits
and Investments

CC: David E. Barnes
Vice President, General Counsel & Secretary

¹ <http://www.uawtrust.org/midi>

² http://www.uawtrust.org/AdminCenter/Library.Files/Media/501/About%20Us/MIDI/Diverse%20Search%20Tool%20Kit_121718.pdf

³ <http://www.uawtrust.org/AdminCenter/Library.Files/Media/501/About%20Us/MIDI/Examples-of-Diverse-Candidate-Search-Language-010218.pdf>

⁴ <http://www.uawtrust.org/AdminCenter/Library.Files/Media/501/About%20Us/MIDI/Midwest-Diversity-Initiative-News-Release-071218.pdf>

⁵ <https://www.sec.gov/Archives/edgar/data/1062231/000106223118000017/proxystatement2018.htm>

⁶ <https://hbr.org/2016/04/if-theres-only-one-woman-in-your-candidate-pool-theres-statistically-no-chance-shell-be-hired>

⁷ <http://fortune.com/2017/10/18/american-express-ceo-ken-chenault-black/>

⁸ <https://www.credit-suisse.com/articles/news-and-expertise/2012/07/en/does-gender-diversity-improveperformance.html>

⁹ <https://www.mckinsey.com/business-functions/organization/our-insights/why-diversity-matters>

¹⁰ <https://www.30percentcoalition.org/resources/references-research/the-other-diversity-dividend>

¹¹ <https://www.mckinsey.com/business-functions/organization/our-insights/delivering-through-diversity>

¹² <https://www.mckinsey.com/business-functions/organization/our-insights/delivering-through-diversity>

¹³ <https://www.sec.gov/Archives/edgar/data/1062231/000106223118000017/proxystatement2018.htm>

¹⁴ <http://businessroundtable.org/corporate-governance>



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Joseph R. Leonti
Vice President, General Counsel & Secretary

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March 25, 2019

Midwest Investors Diversity Initiative
c/o Rekha Vaitla, Analyst – Corporate Engagement & Investment Operations
Illinois State Treasurer's Office
100 West Randolph, Suite 15-600
Chicago, Illinois 60601

Ladies and Gentlemen:

Thank you for your letter dated March 12, 2019 to James L. Wainscott. On behalf of Parker-Hannifin Corporation and Mr. Wainscott, I wanted to let you know that we appreciate you sharing your perspectives with us.

Parker is committed to driving sustainable, long-term growth and profitability for its shareholders, team members and other stakeholders. We recognize this requires us to not only achieve our growth, operational and financial goals, but to also continue our commitment to ensuring a thoughtful and purposeful approach to other critical tangible and intangible value drivers, including diversity on our Board of Directors.

We agree that diversity is an important attribute of a well-functioning Board. As a result, we have a robust process for identifying, evaluating, attracting and retaining new Directors, which recently resulted in our strengthening the composition and diversity of our Board with the appointment of Laura K. Thompson on January 23, 2019. This process has helped us to build a very experienced, diverse and independent Board that is providing significant oversight over our plans and strategies for growth, financial performance and shareholder value creation. Under their watch, we have in fact performed well in Total Shareholder Returns over the long term (*i.e.*, on a 3-year and 5-year basis) against a high-performing peer group.

To give you more insight into our Director recruiting process (using the search that led to Ms. Thompson as an example), we retained a top recruiting firm and focused our global search on three key criteria: (i) diversity; (ii) culture and values; and (iii) alignment with a broad list of key skills that are designed to go beyond the C-Suite. We reviewed and considered over 75 potential candidates, most of whom were diverse. We ultimately invited several candidates for formal interviews, and all of the invitees were diverse candidates. Based on this process and key criteria, Ms. Thompson was selected as the top candidate. Her appointment and contributions have made an immediate positive impact on the Board.

As you point out, we believe we can find ways to clarify and enhance our disclosures so our process in general, and our commitment to diversity in particular, is more transparent. We will strive to do that going forward, for your benefit and for the benefit of all of our other stakeholders.

If you would like to further discuss our process or anything else, please do not hesitate to have your team contact Robin Davenport, Parker's Vice President – Corporate Finance.

Thank you for your support and, again, for sharing your perspectives.

Sincerely,

Joseph R. Leonti
Vice President, General Counsel and Secretary

cc: James L. Wainscott