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For professional investors only

A few Gingers and some spice –

key ingredients for improving corporate governance and company performance

Despite increased public awareness, a rich pool of qualified candidates, and an abundance of research linking gender diversity with better performance, women are still under-represented on corporate boards and in senior management. We examine why diversity is so important for company leadership, why ratios are not rising as quickly as they should, and how solutions like gender lens investing (GLI) can promote gender equality in business.

Diversity – a key ingredient in good governance

"Companies do not fail: boards do."[1] Although board structures and systems vary, *good* governance has always correlated with strong organizational performance.

Effective boards don't rubber stamp management decisions. Effective boards provide judicious oversight that is focused on facts, data, and robust analysis; balanced with patience, prudence, and principled-thinking; and assessed in the spirit of openness and inclusiveness.

But how can companies create boards which embody these critical characteristics? A growing body of academic and industry research supports diversity, more specifically gender diversity, as at least one key ingredient in the answer. It was also the conclusion reached by a woman-dominated panel of experts from across the asset management industry on how gender diversity contributes to better corporate governance. [2] Diversity is key and gender diversity provides companies with a good starting point. According to statistics, women comprise nearly half of the workforce worldwide (48.5%)[3] and possess, on average, more knowledge and management experience than men.[4,5]

How gender diversity changes board dynamics

So, what exactly are the ingredients that women add to the leadership mix that result in a successful recipe for performance? A few Gingers and a bit of spice. According to panelists, women spice up board dynamics by challenging the status quo, by daring to broach difficult subjects (e.g. demanding more from company management), and by offering different shades of perspective.

"women bring different sensibilities and perceptions that counterbalance…'group-think' tendencies…leading to richer debates, better decisions, better ideas and better results."

Panelist, Karin van Baardwijk, a member of Robeco's executive committee and governing board noted "women bring different sensibilities and perceptions that counterbalance prevailing attitudes and 'group-think' tendencies." She added that while this sometimes increases the complexity and slows down the process of decision making, more perspectives come to the table "leading to richer debates, better decisions, better ideas and, ultimately, better results."

With so much upside, why aren't more women on boards?

The benefits of gender diversity and equality for profitability, risk management, and innovation are well documented. Both academic and industry research shows positive correlations between important company valuation metrics like profitability and lower volatility and female representation at the board and management levels. [6]

Despite the favorable statistics and the abundance of qualified women in the workforce, women are still under-represented on corporate boards and are even scarcer at the chief executive level. In the US, women held 21.2% of board seats and less than 5% of CEO positions at S&P 500 companies (2018).[7] Thanks to regulatory efforts in Europe, the situation worldwide is a little better, with the most recent data revealing nearly a third of global boards had at least three women.[8]

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As to why these statistics are still so bleak among important economies in North America and Asia, even after decades of heightened media attention and awareness campaigns, van Baardwijk conjectured, "a diversified workforce helps ensure the different points of view that are necessary for a company to stay at the forefront in a rapidly changing world. If you are a homogeneous board accustomed to your analyses and decision-making style, embracing a new member with a different style into the ranks will be challenging, especially if they have less board experience."

Karin van Baardwijk
Chief Operating Officer &
member of the Executive Committee Robeco &
Governing Board RobecoSAM

She concluded, "in the end, it's less about valuing diversity and more about valuing the benefit of experience. It's seen as a trade-off, more diversity, less experience." Because many women lack the experience at the board level, they must work even harder to gain credibility and respect of male peers. Moreover, many boards tend to favor speed in decision-making and action. Diversity of opinions can slow the process down.

Women can also construct their own barriers. Working moms often feel at conflict with themselves, other women and their own culture which equates working ambitions with maternal negligence. These feelings can be strong enough to keep women from pursuing more demanding professional positions that will further compromise their time at home.

Hard quotas or soft policies? —what's the right recipe for change

Mandatory quotas are seen as a controversial solution to achieving gender parity. Panelists at the Zurich event were unified in their opposition citing them as ineffective and even damaging in the long run. The dismal results of *Affirmative Action* quotas in the US were cited as evidence for their failure in achieving workplace equality for minorities. The fear surrounding quotas is that companies will appoint unqualified women just to escape regulatory punishment.

"Mandatory quotas are seen as a controversial solution to achieving gender parity...people don't respond well to compulsory policies..."

Moreover, studies confirm that people don't respond well to compulsory policies, particularly if they perceive them to be unfair to their own group.[9] Men in management or fellow employees may disengage with or become dismissive of female colleagues, further deepening the gender rift instead of healing it.

Proponents counter that without quotas, the status quo remains. In the absence of quotas, there has been no change in the share of women in management in the US since 2000. Furthermore, those against quotas failed to recognize the abundance of qualified women who don't apply simply because they see the selection process stacked against them. Guaranteeing a place would give them just the dose of confidence needed to apply.

Many investors believe in the effectiveness of hard quotas and, in the absence of legislative action, are taking matters into their own hands. CalPERS (California Public Employees' Retirement System), a USD 361 billion-strong pension fund in the US, began an initiative in 2017 warning companies in which it invests to appoint more women and minorities to their boards.

Eliminate the Pay Gap

The area where there is universal consensus is eliminating the gender pay gap. The pay *gap* currently stands at 40% worldwide. That means for every one dollar earned by a man, a woman will earn only 60 cents (or 40% less) for comparable work. Some pay gaps are justified, fair, and necessary based on differences in job-related tasks and demands, the quality of work completed, education and skill levels. However, even when these factors are controlled, studies still indicate an unexplained wage gap which points to bias and discrimination against women.

The wage gap is a serious injustice to women the world over. For female millennials in the US, it will result in over a USD 1 million in earnings lost over a lifetime.[10]

Greater diversity follows greater transparency

Governments can also effectively promote gender parity by demanding more reporting, disclosure, and transparency from firms on board nomination processes, management and employee compensation (pay gaps), recruiting ratios, and hiring practices. Greater transparency across these measures should prompt firms to self-regulate. Forcing public disclosure means companies will be openly compared and ranked with industry peers. Firms with effective policies in place that promote women, will begin to attract talent and generate positive attention. The peer-group effect means others will follow their lead to avoid a negative reputation—no company wishes to be labeled the industry laggard.

"Women are becoming a formidable economic power... by 2020 they are expected to hold USD 72 trillion of all private wealth worldwide."

GLI — an effective tool for driving parity and performance

Gender lens investing (GLI) is also a viable approach that uses the equity/capital markets as a tool to enhance gender equality and diversity in society. GLI targets investments in companies and projects only when specific gender-based criteria are met and is attracting attention and assets from both retail and institutional investors worldwide. Assets in gender-based investment vehicles more than doubled from 2017-2018 reaching USD 4.65 billion, of which USD 2.4 billion was devoted to public market products.[11]

"Gender lens investing uses the power of the financial markets to make a positive impact...while generating a financial return."

RobecoSAM's Global Gender Equality Impact Equities Fund is a clear example of how effective a GLI strategy can be for investors seeking gender parity and financial returns. The Fund, which is now entering its fourth year, has had consistent out-performance against its benchmark (MSCI World) since inception.[12] The Fund invests in a global universe of sustainable companies which are leading in promoting gender equality while displaying strong fundamentals and growth potential. Gender equality performance is based on criteria and data from RobecoSAM's proprietary Corporate Sustainability Assessment which was developed in close collaboration with the EDGE Certified Foundation.[13]

Junwei Hafner-Cai, the Fund's portfolio manager affirms, "at RobecoSAM, it has always been our conviction that gender equality is an indication of a well-managed company that is fully utilizing its talent and human assets to make better decisions that lead to better results. It makes sense that it gives them an edge over peers."

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Attitude and atmosphere beats policies and procedures

Junwei Hafner-Cai, CIIA
Portfolio Manager
Global Gender Equality Impact Equities, RobecoSAM

Hafner-Cai asserts, "equality and diversity can't work without the right attitude and atmosphere. With this in mind, we look beyond compulsory metrics towards underlying cues of the overall culture." RobecoSAM's gender equality criteria have been designed to capture a comprehensive picture of the workplace including whether employers have the right structures in place to measure pay, opportunities, talent retention as well as whether employees feel supported in terms of work-life balance, job satisfaction and overall well-being.

The Fund also stress a top down, bottom up approach. Per Hafner-Cai, "we want to see support and leadership at the top acting to nurture the talent in the middle and at the bottom. Our criteria on recruitment and talent retention are intended to reveal just how well companies are embracing equality and diversity throughout the organization."

The Fund's objectives also contribute to the United Nations' SDG No. 5 (Gender Equality) which aims to eliminate gender-based discrimination, empower *ALL* women and girls, and provide equal opportunities at all levels of public and business life.

The stakes are high for getting it right (or wrong)

Women are becoming a formidable economic power and their wealth is steadily growing. By 2020 they are expected to hold USD 72 trillion (or 32%) of all private wealth worldwide. As consumers, they are estimated to control over 70-80% of all purchasing decisions.[14] As a demographic group, they are keenly interested in social causes that create a better society and future. What's more, as an investor segment, they tend to be both patient and risk averse.

Given these characteristics, they will naturally gravitate towards investment products that promote fairness, inclusion, diversity, and equality especially when they are positively correlated with low volatility and strong long-term performance.

And women aren't the only investor group with an interest at stake, institutional investors are elevating diversity on their voting and engagement agendas, issuing strong ultimatums to companies who are failing to act and calling for stronger market standards for reporting and disclosure.[15,16] Investors of all stripes are recognizing that gender equality is in their portfolio's best interest to address.

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Regardless of the means, improving corporate governance and corporate performance is in everyone's interest. Eliminating systematic discrimination, tapping into a wealth of latent talent and improving the economic opportunities for half the world's population is also in everyone's interest. Gender lens investing uses the power of the financial markets to make a positive impact in both areas while generating a financial return.

It seems adding a few Gingers and some spice packs a punch to the old corporate recipe and to investment portfolios.

> For more information, visit: www.robecosam.com

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[2] 100 Women in Finance, "Governance in Investment Companies: Better with Women on Boards?," Zurich, Switzerland, Jan 24, 2018

[3] Data from the Catalyst at Large; Figure cited is the global average for 2018. Workforce participation rates vary by country: e.g. 57% (US), 61% (Australia), 48% (Japan) 48% (EU); https://www.catalyst.org/knowledge/women-workforce-global

[4] Data presented is for the US only and represents years academic year 2015-2016. Women earned more than half of bachelor's degrees (57.2%), master's degrees (59.2%), and doctorate degrees (52.7%) according to the US National Center for Education Statistics. *Digest of Education Statistics* (2017).

[5] Data cited is for the US only. In 2017 in the US, women held 51.6% of all management, professional, and related occupations and 44.0% of the subcategory management, business, and financial operations occupations. US Bureau of Labor Statistics, Table 11 of the US Current Population Survey (2017).

[6] "Gender Diversity improves ROE, lowers risk," Bank of America Merrill Lynch Research Report (March 2018). Companies which scored high on gender diversity metrics had higher ROE (return on equity) and lower EPS volatility (Earnings Per Share).

[7] Catalyst, Women CEOs of the S&P 500 (2019), https://www.catalyst.org/knowledge/women-corporate-boards

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[11] Public market GLI Strategy AuM as of June 30, 2018. "Gender Lens Investing: Bending the Arc of Finance for Women and Girls", White Paper 2018, Veris Wealth Partners

[12] As of 31.12.2018 the Fund returned 7.53% p.a. (EUR, net of fees retail share class B. The MSCI World Index returned 6.36% for the same time period. Fund inception date, 18.05.2015.

[13] EDGE Certified Foundation is the leading global assessment methodology and business certification standard for gender equality. http://edge-cert.org/

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The European SRI Transparency logo signifies that RobecoSAM commits to provide accurate, adequate and timely information to enable stakeholders, in particular consumers, to understand the Socially Responsible Investment (SRI) policies and practices relating to the fund. Detailed information about the European SRI Transparency Guidelines can be found on www.eurosif.org, and information of the SRI policies and practices of the Global Gender Equality Impact Equities can be found at: www.robecosam.com. The Transparency Guidelines are managed by Eurosif, an independent organisation.

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About RobecoSAM
Founded in 1995, RobecoSAM is an investment specialist focused exclusively on Sustainability Investing. It offers asset management, impact analysis and investing, sustainability assessments, benchmarking services, as well as ESG data. The company's asset management capabilities cater to institutional asset owners and financial intermediaries and feature a strong track record in sustainable and resource efficiency-themed strategies, as well as strategies focused on the U.N. Sustainable Development Goals (SDGs). Together with S&P Dow Jones Indices, RobecoSAM publishes the globally recognized Dow Jones Sustainability Indices (DJSI) as well as the S&P ESG Factor Weighted Index series, the first index family to treat ESG as a standalone performance factor using the RobecoSAM Smart ESG methodology. Based on its Corporate Sustainability Assessment (CSA), an annual ESG analysis of over 4,700 listed companies, RobecoSAM has compiled one of the world's most comprehensive databases of financially material sustainability information. The CSA data is also included in USD 114 billion of assets under management at Robeco.

RobecoSAM is a sister company of Robeco, the Dutch investment management firm founded in 1929. Both entities are subsidiaries of ORIX Corporation Europe N.V., the center of asset management expertise for ORIX Corporation. As a reflection of its own commitment to advancing sustainable investment practices, RobecoSAM is a signatory of the PRI, UN Global Compact and Climate Action 100+, a supporter of the Task Force on Climate-related Financial Disclosure (TCFD), as well as a member of Eurosif, Swiss Sustainable Finance, Carbon Disclosure Project (CDP), and Portfolio Decarbonization Coalition (PDC). As of December 31, 2018, RobecoSAM had client assets under management, advice and/or license of approximately USD 21.5 billion.

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