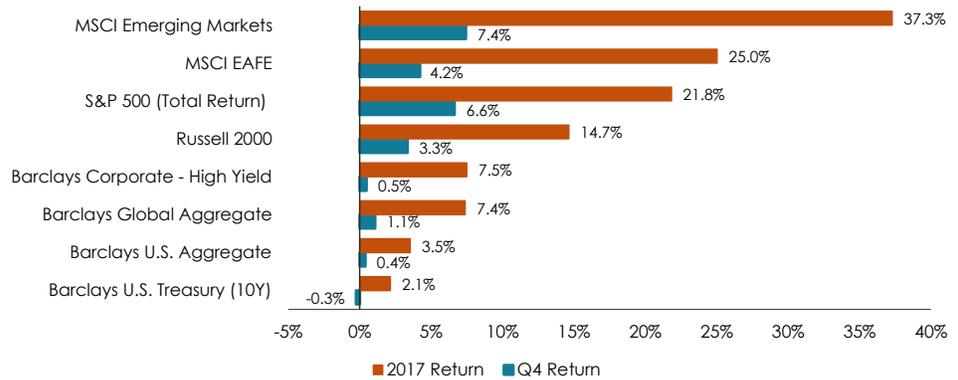


MARKET HIGHLIGHTS

- U.S. dollar weakness
- Global growth acceleration
- Global central bank continuity

FOURTH QUARTER 2017 AND 2017 INDEX RETURNS



Source: Glenmede Investment Management L.P. and FactSet Data through 12/31/17

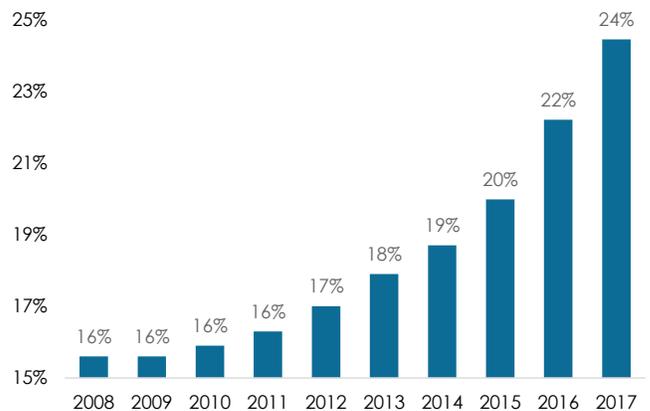
Gender Lens Investing

While 2017 was a strong year for global risk assets, it also marked a continuing transformation in the mindset of investors. As markets have evolved, so has the interest in impact investing, also known as ESG (environmental, social and governance) investing. This investment discipline emphasizes factors to help select environmentally friendly and socially aware companies that also exhibit solid governance policies. The speed with which impact investing has gained mainstream appeal is notable, as evidenced by the 33% increase from 2014 to 2016 in total U.S.-domiciled assets under management to \$8.7 trillion<sup>1</sup>.

Proponents of impact investing believe they can strategically align investments with their mission without sacrificing competitive returns. One particularly compelling approach to ESG investing, the selection of stocks through a gender lens, appears to have strong merit, on both impact and returns.

Certainly, the meteoric rise in ESG investing occurs as women in the workforce are on the brink of several milestones. For example, women now hold 19.8% of board seats of companies in the Fortune

EXHIBIT 1: Percentage of Women on Boards of S&P 500 Companies



Source: ISS, FactSet, MSCI

1000<sup>2</sup>. In the S&P 500, this percent is close to a quarter of all companies (Exhibit 1). In addition, the mix of new board membership also reflects progress, with females comprising over a third of new board members in the S&P 500 in 2017<sup>3</sup>.

This progress is promising, but in reality, women take on many roles within organizations, and therefore assessing the impact of women leadership should incorporate more than a just a measure of female

board membership. For this reason, our analysis tests for one or more of the following characteristics within the Russell 1000 to help define a universe for Women in Leadership (WIL):

- Women represent more than 20% of board members
- Women represent more than 25% of senior management
- A woman is the CEO
- A woman is the board chair

This universe has recently experienced sizable growth. At the end of 2016, 650 companies met one or more of these criteria, yet by the end of 2017 this number had increased to over 700 companies. Further, growth has been most concentrated in the board membership and senior management categories over the past year (*Exhibit 2*).

**EXHIBIT 2:**  
Number of companies that meet each criteria

Factor*	Board Membership	Senior Management	CEO	Board Chair
2016	512	307	41	41
2017	600	320	34	44
Increase/Decrease	88	13	-7	3

Sources: Glenmede Investment Management L.P. and FactSet  
\*Based on Russell 1000 index at the end of 2016 and end of 2017

With time, data availability and quality should improve given the mounting interest in understanding the increasing role of women in the workforce. As older data is unreliable or unavailable, the monthly, equal-weighted data set utilized in our analysis starts in July of 2009.

When examining each component separately, annualized performance remains competitive with benchmark, but the risk reduction benefit in the form of lower standard deviation is more prominent (*Exhibit 3*). However, it's the combination of these factors that is more compelling.

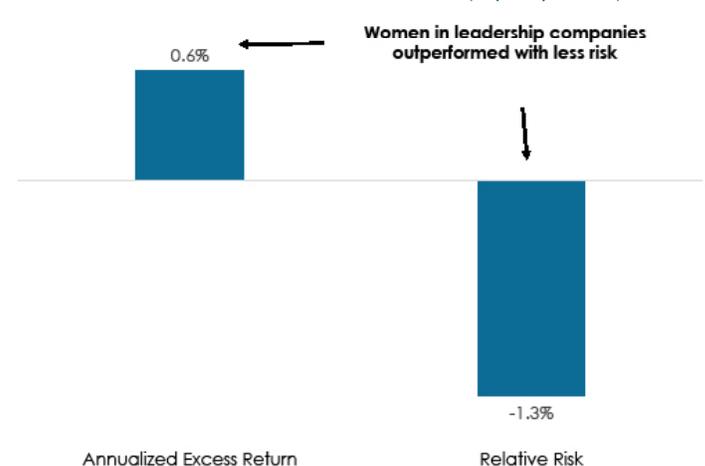
**EXHIBIT 3:**  
Risk/return characteristics of each factor

Factor*	Board Membership	Senior Management	CEO	Board Chair
Annualized Excess Return	0.0%	-0.1%	-0.1%	0.0%
Relative Risk Reduction	0.3%	0.9%	0.3%	0.3%

Sources: Glenmede Investment Management L.P. and FactSet  
\*Each factor is compared to the equal-weighted Russell 1000 using monthly data from July 2009 through December 2017

When comparing companies in the Russell 1000 with at least one of these qualities to the equal-weighted Russell 1000 through year-end of 2017, we find economically different risk and return characteristics, with a 0.6% increase in annualized excess return and a 1.3% risk reduction (*Exhibit 4*).

**EXHIBIT 4:**  
Risk and Return of Women in Leadership (WIL) Companies\*



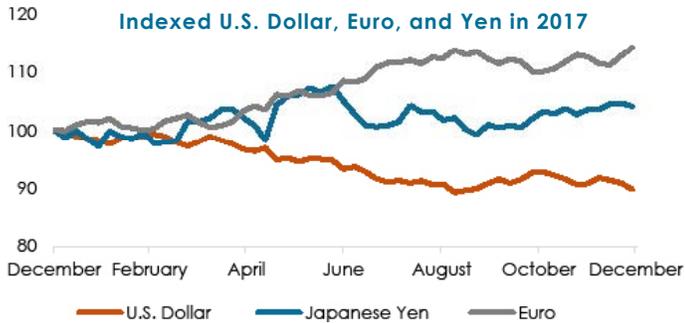
Source: Glenmede Investment Management Data thru 12/31/2017  
\*Within the Russell 1000, we compare the companies with women in leadership attributes relative to the equal-weighted Russell 1000 from July 2009 through December 2017. If a company has any one of the following characteristics, they will be in the women in leadership universe: (1) Female CEO, (2) Female Chair, (3) Greater than 20% women on board, and (4) Greater than 25% women in management. This is historical performance which may not be repeated.

As investors become increasingly attune to investing alongside their principles, gender lens investing bears continued attention as its initial results indicate both excess return and risk reduction.

## Market Commentary

Globally, risk assets continued their march higher during the fourth quarter as numerous geopolitical concerns seemed no match for expanding economic indicators, rising corporate earnings, and central banks staying on script. In fact, all 2017 followed a similar pattern.

But as we enter 2018, we stop to reflect on market dynamics that greatly influenced 2017's returns.



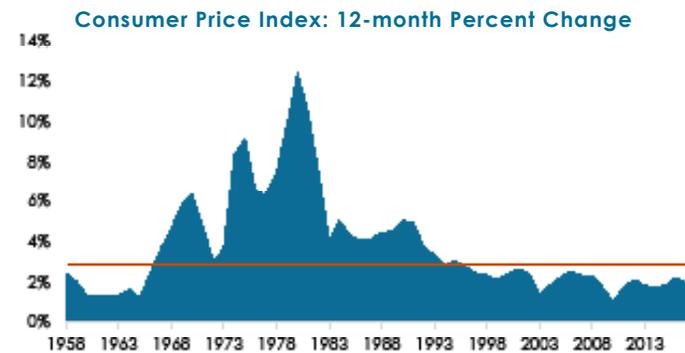
Source: FactSet (weekly data)

**WEAKER U.S. DOLLAR:** Bucking expectations, the dollar fell over 10% for the year despite rising (short-term) interest rates and corporate tax reform.



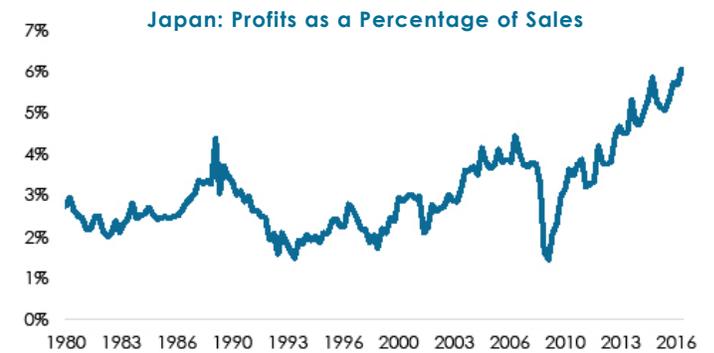
Source: Glenmede Investment Management, FactSet

**STRONG EARNINGS GROWTH:** Estimated earnings growth rates look close to double digits for all of 2017—the highest annual earnings growth rate for the index since 2011.



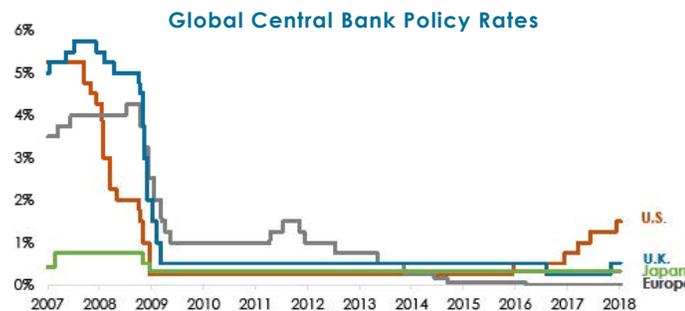
Source: Bureau of Labor Statistics  
All items less food and energy in U.S. city average, all urban consumers, not seasonally adjusted. Incorporates average % change from first 11 months of 2017

**SUBDUED INFLATION:** The U.S. CPI hovered around the Federal Reserve's 2% target in 2017, but hasn't broken above 3% in more than two decades.



Source: Haver Analytics, Ministry of Finance, DB Global Markets Research  
Date: 9/30/2017

**TANGIBLE JAPANESE CORPORATE REFORM:** Japan's corporate reform efforts have translated into favorable profit margins.



Source: Glenmede Investment Management, FactSet  
U.S.: Federal Funds Rate, Europe: ECB Main Refinancing Operations Rate, U.K.: Bank Rate, Japan: Basic Discount and Loan Rate

**STEADY CENTRAL BANK POLICIES:** Most global central banks maintained accommodative monetary policies and are not expected to change course until late 2018. The U.S. continued its gradual increases in 2017.



Source: Glenmede Investment Management, FactSet

**CONFIDENT EUROZONE CONSUMERS:** Economic recovery remains robust in the Eurozone with consumer confidence at the end of the year reaching levels not seen since 2001 and finally breaking into positive territory as of 12/31/17 (WSJ & Trading Economics).

## Looking forward into 2018

As we enter 2018, the path forward remains positive as the global economic expansion chugs on, but we are keenly aware of elevated valuations measures in the vast majority of asset classes.

### Earnings Estimates Across the Globe



Source: Glenmede Investment Management, FactSet

Earnings growth is expected to remain strong into 2018, with emerging markets and Japan seeing the most robust growth.

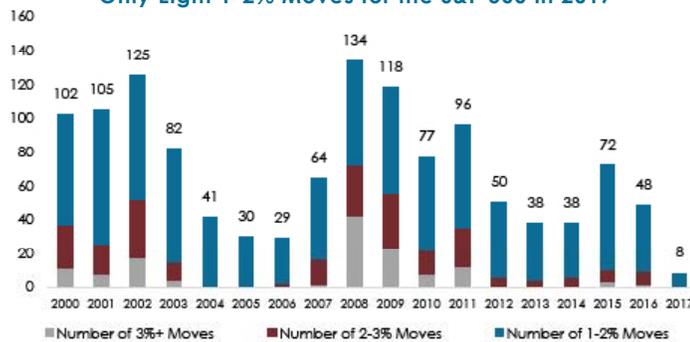
### S&P 500 - Average Intraday Correlation, Rolling 3-Month Returns (Daily)



Source: Glenmede Investment Management, FactSet

Low intraday correlations may provide opportunities for active managers in 2018.

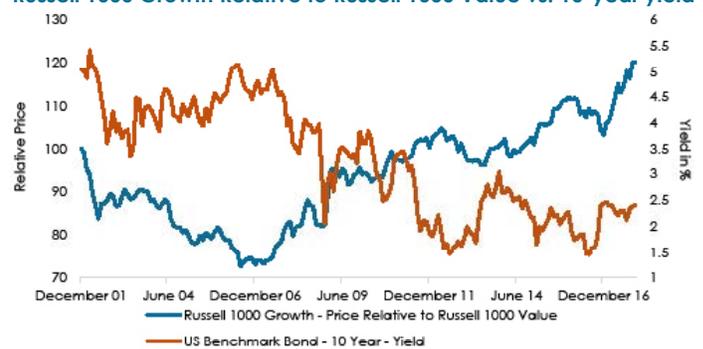
### Only Eight 1-2% Moves for the S&P 500 in 2017



Source: Glenmede Investment Management, FactSet

Volatility was uncharacteristically muted in 2017, which could indicate a bumpier 2018.

### Russell 1000 Growth Relative to Russell 1000 Value vs. 10-year yield



Source: Glenmede Investment Management, FactSet

If rates begin to rise on the longer end of the curve, the dichotomy between growth and value may begin to shift back to value.



**THE QUARTERLY STATEMENT** is a Glenmede Investment Management LP newsletter written by Peter J. Zuleba, III, CFA®, President of Glenmede Investment Management.

<sup>1</sup> U.S. SIF (The Forum for Sustainable and Responsible Investment). 2016. "Report on US Sustainable, Responsible and Impact Investing Trends."  
<sup>2</sup> 2020 Women On Boards. 2017. "Gender Diversity Index: 2011-2017 Progress of Women Corporate Directors by Company Size, State, and Sector."  
<sup>3</sup> Spencer Stuart & The Wall Street Journal. "Women, Minorities Were Half of S&P 500 Directors Added in 2017." November 2017.

All data is as of 12/31/17 unless otherwise noted. Opinions represent those of Glenmede Investment Management, LP (GIM) as of the date of this report and are for general informational purposes only. This document is intended for sophisticated, institutional investors only and is not intended to predict or guarantee the future performance of any individual security, market sector or the markets generally. GIM's opinions may change at any time without notice to you.

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