

Diversification has been a sacred tenet of the investment world for decades. History has shown that asset-class diversification can help investors enjoy higher returns with lower risks. In recent years, investment professionals have identified a more nuanced category of diversification—specifically, gender diversification within workplace leadership.

Data shows that leadership diversity may provide the same benefits as asset-class diversification: higher returns and lessened risk. Given this research, investors, particularly those committed to environmental stewardship (E), social impact (S) and responsible corporate governance (G) investing are allocating funds to companies with strong female leadership. This whitepaper will examine the business case for weighing leadership diversity as a factor in investment analysis. It will also explore the potential impact of utilizing women in leadership as an investment strategy within a growing field called “gender-lens investing.”

A Shifting Economic Landscape

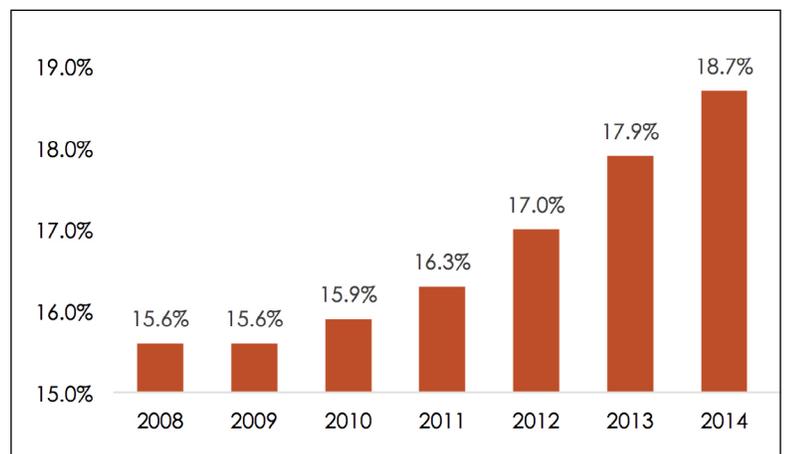
In the past century, the number of women occupying the workforce and earning advanced degrees has grown. For the first time in U.S. history, nearly half of all American workers are female¹, and 30 percent of U.S. businesses are female-owned.² Recently, there has also been a notable increase in women’s representation in leadership positions in the private sector. In 2014, the percentage of female CEOs of Fortune 500 companies topped 5 percent for the first time.³ Though this may seem nominal, twenty years ago there were no female CEOs on the Fortune 500 list.

The gap in female representation on U.S. corporate boards has also narrowed noticeably across various markets. In 2014, the percentage of women serving on corporate boards of S&P 500 companies was 18.7 percent, up from 15.6 percent in 2008.⁴ The Global Industry Classification Standard (GICS) survey, a study of S&P 500 companies by Institutional Shareholder Services, shows broad-based improvement in the proportion of female board members from 2008 to 2014

across 21 of the 24 industries tracked. The industry with the greatest proportional increase was the banking industry, increasing by 7.1 percent over the study’s time frame.

The benefits of gender diversity and a broader representation of women at board and executive levels has been traditionally considered in social terms. But, armed with a decade of data, the investment industry is now beginning to understand that there may be economic benefits to be gained from leadership diversification.

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



Source: ISS (2014).

¹U.S. Department of Labor

²American Express OPEN (2015)

³Brown, Ana (2015)

⁴Kamonjoh, Edward (2014)

Companies with More Women in Leadership Positions Outperform

Studies from various disciplines have investigated the correlation between female leadership and financial performance, illustrating that companies with superior diversified leadership characteristics outperform their less-diversified peers. Studies that have looked at female board representation have found that:

- Companies with one or more women on the board delivered higher average returns on equity and better average growth.⁵
- Companies with three or more female corporate directors significantly outperformed those with lower representation of female corporate directors by 84 percent on return on sales; 60 percent on return on invested capital; and 46 percent on return on equity.⁶
- Companies ranked in the highest quartile of those with female directors outperformed those with the least by 16 percent on return on sales and 26 percent on return on invested capital.⁷

These results may be attributable to a link between the presence of women on boards and corporate reputations;⁸ female directors could serve as role models, improving female employees' performance and boosting their companies' images.

In addition to providing greater financial returns, companies where women hold a greater number of board seats tend to experience less volatility. Companies in which women comprise more than 30 percent of the boards' seats fare better in periods of greater economic volatility than companies where women hold less than 10 percent.⁹ This is consistent with academic research that supports the finding that teams benefit from enhanced decision-making and problem-solving when leadership roles are gender-diverse.¹⁰

Companies that have more women in senior management¹¹—not just women on boards—also perform better financially. Companies with 15 percent or more of woman in senior management generate higher payout dividends, better stock performance and higher return on equity than those with 10 percent or less.¹² Moreover, companies with the highest share of women on executive committees outperformed those with all-male executive committees by 41 percent in return on equity and 56 percent in operating results.¹³

Though the correlation is evident—and even promising—we note that this research does not prove causality. Various explanations as to why the correlation between women in leadership and financial performance exists have been offered. One is that women could bring a fundamentally different approach to management, whether it be enhanced critical thinking or higher levels of soft skills. Alternatively, companies that promote women to leadership positions have a competitive advantage over those that don't in that they have a broader talent pool to draw upon when searching for high-performing individuals, whether male or female. Last, companies with better performance may be better- equipped to recruit and retain high-performing women.

⁵ Curtis, Mary, et al. (2012)

⁶ Carter, Nancy M., et al. (2011)

⁷ Ibid.

⁸ Catalyst (2013)

⁹ Chanavat, Andre, et al. (2013)

¹⁰ Woolley, Anita Williams, et al. (2010)

¹¹ Defined as key management roles of CEO, CFO and Strategy Roles, Operations and Shared Services.

¹² Dawson, Julia, et al. (2014)

¹³ Borisova, Darya, et al. (2010)

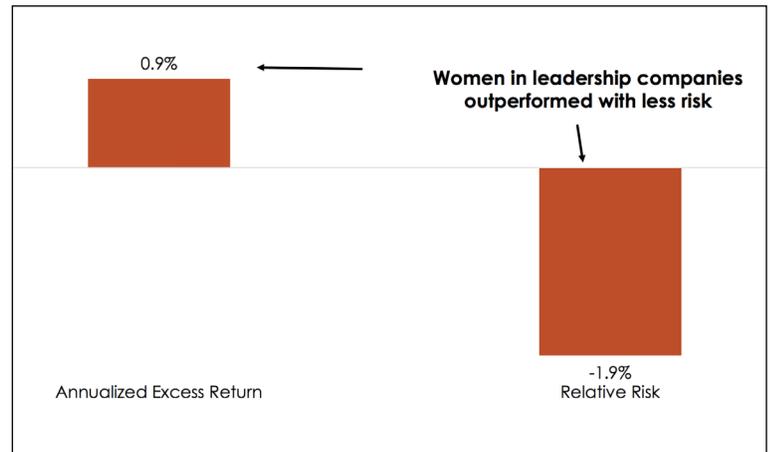
Glenmede’s Distinct Approach to the Data

Previous studies on women in leadership have focused on one discrete variable—either female board representation or women in senior management or female executives. What would happen if we included all of these factors? Glenmede embarked on this type of analysis using the companies in the Russell 1000 with one or more of the following characteristics:

- Women represented more than 20 percent of the board members;
- Women represented more than 25 percent of senior management;
- A woman is the CEO;
- A woman is the board chair.

Our research supports the findings that the gender-diverse companies do better than their peers.¹⁴ Looking at the Russell 1000 between July 2009 and October 2015, roughly 300 companies had at least one of our women-in-leadership attributes. These firms outperformed the 700 companies that had none by 0.9% annually—with less risk.

Figure 2: Risk and Return of Women in Leadership (WIL) Companies*



Source: Glenmede

*Within the Russell 1000, we compare the 300 companies with women in leadership attributes relative to the 700 companies without women in leadership attributes from July 2009 through October 2015.

Women in Leadership: Finding Value

Glenmede believes that stocks with attractive valuations, strong financial fundamentals, like profitability, good earnings growth and positively trending technical factors have a greater probability of outperforming the markets. As a complement to these traditional factors, Glenmede research efforts consider a fourth attribute: uniqueness. Typically, we measure the uniqueness of our sample by calculating the correlation coefficient with the other ranking methods. Correlation measures the statistical relationship between two variables. At the extreme, if two variables move in unison, they will have a correlation of 1. Conversely, if they always move in opposite directions, the correlation will be -1. In finance, the benefits of diversification are derived from investments with low correlations. In this case, our findings show the calculated correlations are relatively close to zero, suggesting that the selection of companies based on women in leadership provides a new and distinct form of value-added.

¹⁴ Data from September 2009 through October 2015

Figure 3: Correlations Relative to Traditional Quantitative Metrics

	WIL	Value	Fundamental	Earnings	Technical
Women in Leadership (WIL)	1.00	0.03	0.07	-0.03	0.10
Value Factor	0.03	1.00	0.03	0.01	0.15
Fundamental Factor	0.07	0.03	1.00	0.07	-0.01
Earnings Factor	-0.03	0.01	0.07	1.00	-0.05
Technical Factor	0.10	0.15	-0.01	-0.05	1.00

Source: Glenmede Investment Management, MSCI, Bloomberg, SASB, and FactSet

*Women in Leadership companies include organizations with at least one of the following attributes: (1) female CEO or chair or (2) greater than 20% women on board or (3) greater than 25% women in management. Value, fundamental, earnings, and technical factors are the main groups within our quantitative models used to analyze corporations. The value factor takes into account traditional valuation metrics such as price-to-cash flow and price-to-book value. Fundamental factors are meant to determine how well a company is performing, including things like return-on-equity (ROE), stability of earnings, and low leverage. Earnings factors encompass momentum and forward looking earnings estimates, while technical factors take into account short-to-medium term price movements and liquidity metrics.

While gender criteria are commonly incorporated into broader ESG analysis, our research indicates that leadership diversity captures additional attributes heretofore unobtainable by broader ESG strategies. The analysis of our sample presents a low correlation with combined ESG metrics of 0.14, with even smaller correlations with the individual ESG rankings. This suggests that while ESG strategies may integrate gender criteria, women in leadership specifically represents a value measure not otherwise found by more common measures of social impact.

Figure 4: Correlations Relative to Environmental, Social, and Governance (ESG) Metrics

	WIL	ESG	Environmental	Social	Governance
Women in Leadership (WIL)	1.00	0.14	0.08	0.07	0.05
Combined ESG Factor	0.14	1.00	0.34	0.59	0.25
Environmental Factor	0.08	0.34	1.00	0.05	-0.07
Social Factor	0.07	0.59	0.05	1.00	0.00
Governance Factor	0.05	0.25	-0.07	0.00	1.00

Source: Glenmede Investment Management, MSCI, Bloomberg, SASB, and FactSet

*Environmental, social, and governance factors, along with the combined ESG factor, are derived from MSCI's ESG ratings. Women in Leadership companies include organizations with at least one of the following attributes: (1) female CEO or chair or (2) greater than 20% women on board or (3) greater than 25% women in management.

Investing with a “Gender Lens” Defined: Opportunities for Investing

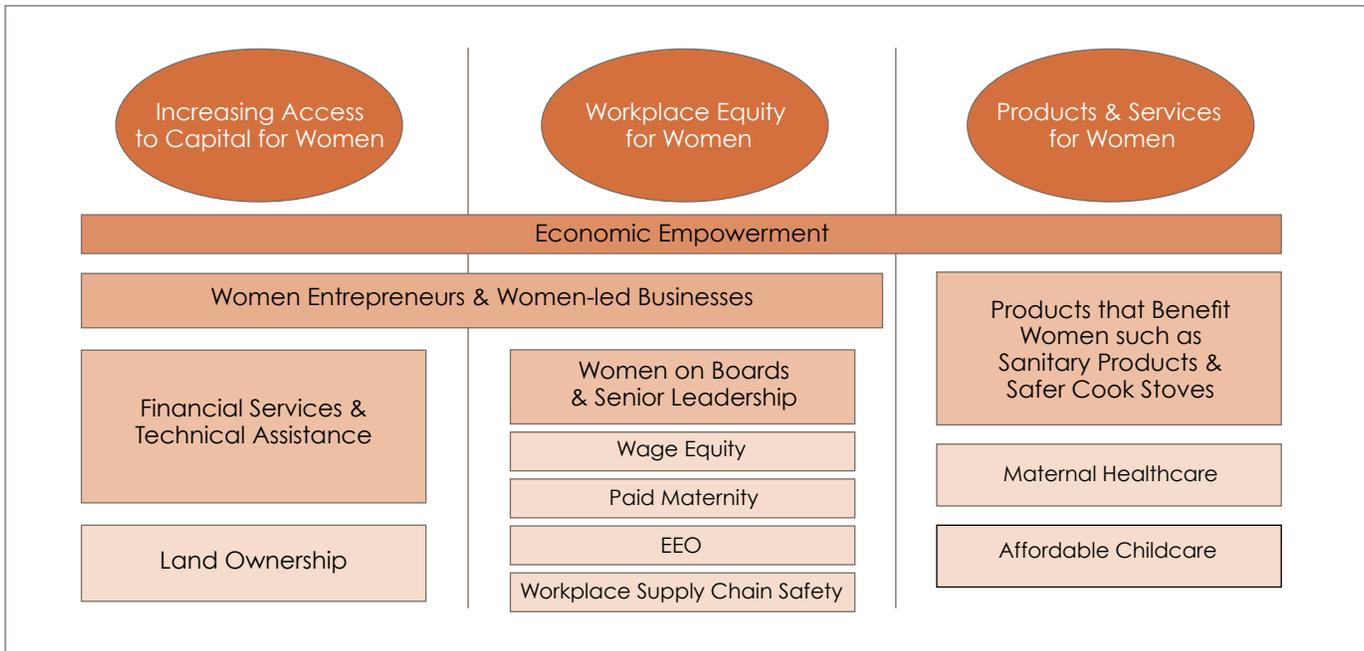
There is mounting evidence, including our own, that supports the integration of leadership diversity into investment analysis. Moreover, there are many other opportunities for investors to incorporate gender and gender equality more broadly into their investment decisions. This broader focus on the intersection between gender and investing is called “gender-lens investing.” The goal of gender-lens investing is twofold. Not only does gender-lens investing seek to deliver social returns through the use of capital to help advance women, it also seeks to deliver financial returns.

There are three common approaches to gender-lens investing:

- The first approach is to increase women’s access to capital and resources. This means providing women—not only in developing markets, but also in established markets—with access to equity, loans and financial training.

- The second approach is to create products and services that benefit and empower women. This includes, for example, creating products for clean cook stoves and fuels in the developing world to help improve health outcomes and alleviate economic burdens that fall upon women. This approach also includes creating services for improved maternal healthcare, including more women in pharmaceutical clinical trials and even using female-sized crash-test dummies in automotive safety testing.
- The third approach is to use capital to promote gender equality in the workforce. Integrating gender diversity as a component of investment analysis includes assessing factors such as a company's representation of women on boards and in senior leadership, salary parity and paid maternity leave.

Figure 5: Common Gender Lens Investing Themes



Source: Criterion Institute; Croatan Institute analysis.

Through these approaches, there are a variety of options for investors looking to align their values with their investments through gender-lens investing. For investors looking for specific, stand-alone gender-lens investments, products across various asset classes have been developed. Investors looking to participate in more comprehensive ESG investing can incorporate gender criteria into ESG analysis, taking into account issues that benefit women, like leadership diversity, wage equity and maternity leave.

Other gender-lens investing strategies include shareholder engagement, such as filing shareholder resolutions to disclose demographic data on employees, and proxy voting, such as voting against, or withholding votes from, all-male director nominations in annual board elections for publicly traded companies. Institutional investors can join national organizations that empower women and promote gender diversity like the Thirty Percent Coalition, an organization whose mission is to have women hold 30 percent of board seats in all public companies.

Glenmede and Women

Glenmede, where female leadership and innovation is part of our history, is deeply committed to promoting gender inclusion:

- More than half of our workforce are women.
- Women make up 34 percent of Managing Directors and Vice Presidents, well above the industry average of 25 percent for executive and senior-level officers and managers in the financial services industry¹⁵.
- Women comprise 55 percent of our Management Committee.
- Glenmede's Board of Directors is currently comprised of 13 percent women, which puts us in the second-best ranking of the 2020 Gender Diversity Index, an index of Fortune 1000 companies.¹⁶

At Glenmede, we understand and appreciate the many roles women play and are committed to developing female leadership within our organization and the communities we serve. From talent acquisition to performance management, we promote leadership within our workforce and have partnered with organizations like Million Women Mentors to increase female participation within science, technology, engineering and math fields. Recently, we also launched an internal Women's Initiative focused on tailoring our existing wealth planning strategies to align with our female clients' goals.

An Alignment of Value and Vision

This review underscores the business case for diversified leadership. Investors may seek opportunities to incorporate gender-lens investing, and specifically leadership diversity, in their investment decisions.

Whether motivated to generate measurable, beneficial social impacts alongside financial returns or by the opportunities associated with diversified leadership, these investors can rely on research, including our own, as support for the possible economic advantages of women in leadership. As the number of women in leadership continues to rise¹⁷, we expect that investors will continue to benefit both socially and financially from women in leadership.

¹⁵ PricewaterhouseCoopers (2013)

¹⁶ 2020 Women on Boards Gender Diversity Index (2015)

¹⁷ Kamonjoh, Edward (2014)

References:

2020 Women on Boards. 2015. "Gender Diversity Index."

American Express OPEN. 2015. "The 2015 State of Women-Owned Business Report."

Brown, Anna. 2015. "The Data on Women Leaders." Pew Research Center.

Borisova, Darya, and Olga Sterkhova. 2010. "Women as a Valuable Asset." McKinsey & Company.

Carter, Nancy M., and Harvey M. Wagner. 2011. "The Bottom Line: Corporate Performance and Women's Representation on Boards (2004-2008)." Catalyst.

Catalyst. 2013. "Why Diversity Matters."

Chanavat, Andre, and Katharine Ramsden. 2013. "Mining the Metrics of Board Diversity." Thomson/Reuters.

Curtis, Mary, Christina Schmid, and Marion Struber. 2012. "Gender Diversity and Corporate Performance." Credit Suisse Research Institute.

Dawson, Julia, Richard Kersley, and Stefano Natella. 2014. "The CS Gender 3000: Women in Senior Management." Credit Suisse Research Institute.

Kamonjoh, Edward. 2014. "Gender Diversity on Boards: A Review of Global Trends." Institutional Shareholder Services.

Lang, Kristin, Joshua Humphreys, and Christi Electrís. 2015. "Investing for Positive Impact on Women: Integrating Gender into Total Portfolio Activation." Croatan Institute.

U.S. Department of Labor, Women's Bureau. "Women in the Labor Force in 2010."

PricewaterhouseCoopers. 2013. "Mending the Gender Gap: Advancing tomorrow's women leaders in financial services."

Woolley, Anita Williams, Christopher F. Chabris, Alex Pentland, Nada Hashmi, and Thomas W. Malone. 2010. "Evidence for a Collective Intelligence Factor in the Performance of Human Groups." *Science*, Vol. 330, Issue 6004: 686-688.

For more information:

Casey Clark

Investment Strategy
215-419-6116
casey.clark@glenmede.com

Abby Zielinski

Wealth Advisory
215-419-6735
abby.zielinski@glenmede.com

This piece is intended to be an unconstrained review of matters of possible interest to Glenmede Trust Company clients and friends and is not intended as personalized investment advice. Advice is provided in light of a client's applicable circumstances and may differ substantially from this presentation. Opinions or projections herein are based on information available at the time of publication and may change thereafter. Information gathered from other sources is assumed to be reliable, but accuracy is not guaranteed. Outcomes (including performance) may differ materially from expectations herein due to various risks and uncertainties. Any reference to risk management or risk control does not imply that risk can be eliminated. All investments have risk. Clients are encouraged to discuss the applicability of any matter discussed herein with their Glenmede representative.