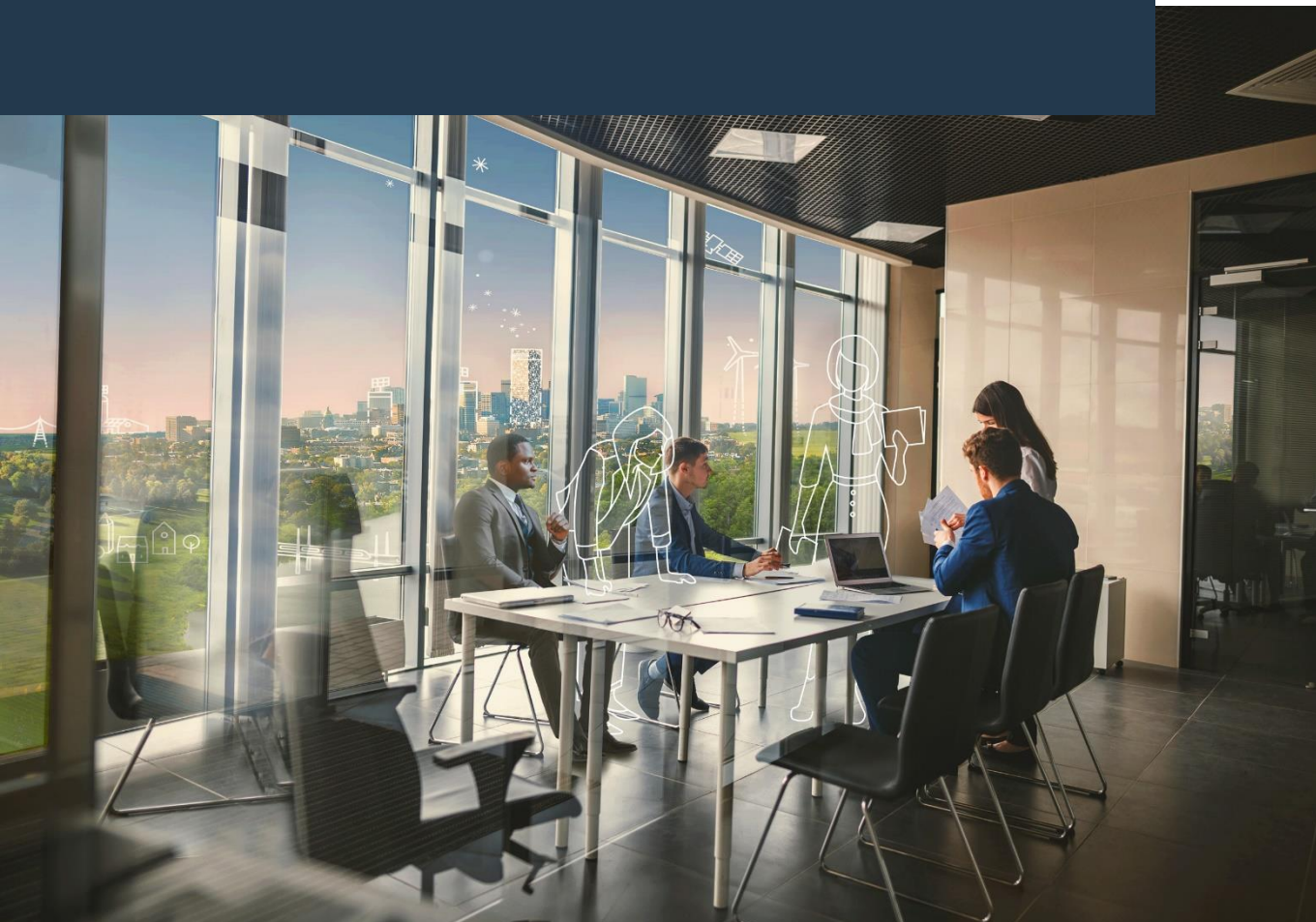


Empowering women through listed equities



Date of publication: February 2019

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Executive summary

The past 20 years have seen significant progress towards gender equality, together with an increasing awareness that the achievement of gender equality is a prerequisite for sustainable development. There is a growing consensus that educating and employing larger numbers of women can lead to economic growth. Yet despite this progress, women's professional prospects are still far from equal to those of their male counterparts.

In addition to facing challenges associated with accessing the workforce, women who succeed in joining the workforce are often victims of the "**Quality Gap**": they tend to work lower-paid jobs, engage in more part-time work, and receive less remuneration than their male counterparts. Furthermore, their advancement is often impeded by the "**Glass Ceiling**," an invisible barrier which prevents them from rising to higher-level positions within corporations.

Several European countries have taken steps to address these issues, including implementing mandatory quotas for the number of women on corporate boards. While these policies have had a positive impact and have helped to increase companies' awareness of the importance of gender diversity, they are also subject to certain limitations.

We believe that **addressing the number of women in top-level executive positions is a more effective way to increase gender diversity** and that the main challenge that companies face when seeking to increase the gender diversity of their workforce is creating a **clear career path for women** that enables them to advance from middle- to top-level management.

Conversely, increasing the number of women in top-level management positions contributes to create a positive "**spill-over**" effect enabling effective change in the company's culture and foster broader diversity.

Furthermore, the underrepresentation of women in top-level management positions in the private sector is increasingly seen as a **problem, not only from a fairness and equality perspective**, but also because it may **impede financial performance**.

Evidence suggests that greater gender diversity in leadership positions leads to better operational performance, profitability and returns. In short, increased gender diversity, particularly at the C-suite level, has a **positive financial impact as well as a positive social impact**.

In light of these findings, we have defined a set of objective criteria for measuring companies' commitment to empowering women. By focusing on the percentages of women in C-suite positions and on Executive Committees and coupled with a qualitative review of companies' practices to gender balance, we have identified a global investment universe of approximately 258 companies¹.

¹ This investment universe includes companies identified using the criteria outlined above which also meet our standard ESG criteria.

Women's empowerment in the workplace: Is it still an issue?

Although women represent nearly half of the world's population, they continue to face more challenges and have access to fewer opportunities than men. Areas of difficulty within the social sphere include: civil rights and protections, access to health and education, and achieving equal status in the professional world.

The past 20 years have seen significant progress on many of these fronts together with an increasing awareness that the achievement of gender equality is a prerequisite for sustainable development. The adoption of the 2030 UN Agenda for Sustainable Development, of which one of the stated goals is to "Achieve gender equality and empower all women and girls" (SDG 5), reflects the need for further progress.

There is also increasing evidence that educating and employing larger numbers of women can lead to economic growth. Estimates suggest that increases in the number of women in the workforce could lead to an increase of 5.3 trillion USD (+3.9%) in the global GDP by 2025.²

Women in the workplace

The Gender Gap persists...

Today, more women than ever before are choosing to pursue higher education and join the workforce. Enrollment numbers for women continue to climb, particularly in developed regions. And women now outnumber men in higher education programs in most countries.³

Despite major progress towards gender equality over the last few decades, women's professional prospects are still far from equal to those of their male counterparts and current progress is slow. The Gender Gap persists in both developing and developed countries around the globe.

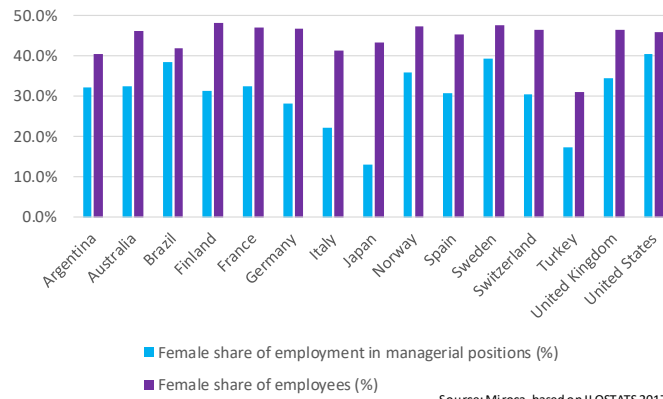
Women today account for almost 40% of the world's total potential workforce, but only half of working age women are currently part of the workforce (compared to 77% of working age men) and this number hasn't seen any drastic changes for the last decade⁴ This disparity widens significantly in certain geographic areas.

² International Labor Office, *Economic Impact of Reducing the Gender Gap*, 2017.

³ United Nations Department of Social and Economic Affairs, 2015

⁴ International Labor Office, 2018. *World Employment and Social Outlook: Trends for women 2018*

Figure 1: Female representation in the workforce in a selected number of countries⁵



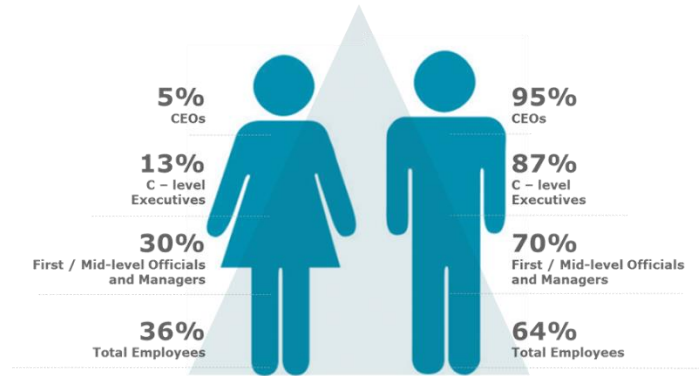
Furthermore, those women who are part of the workforce still face a “Quality Gap”: they tend to work lower-paid jobs, engage in more part-time work, and receive less remuneration than their male counterparts. In fact, women who work full-time jobs earn between 70 and 90% of what men do in most countries across all sectors and occupations (United Nations Department of Economic and Social Affairs, 2015).

... as does the “Glass Ceiling”

Despite numerous initiatives in the public and private sectors to increase gender diversity, the Glass Ceiling remains intact today. The number of women shrinks drastically towards the top of the pyramid. According to statistics from the International Labor Organization, women represent approximately 40% of the total workforce, a figure which shrinks to 30% when we look at women in middle- and senior-level management position, and becomes a tiny fraction when we look at women in CEO and other C-level roles (CFOs, COOs, etc.) Our research using the MSCI World index yielded similar results: only 5% of all CEOs were female (see Figure 2).

⁵ International Labor Organization, *World Employment and Social Outlook: Trends for Women 2017 - Global snapshot*. Geneva, 2017.

Figure 2: Women in MSCI World companies



Source: Mirova, 2018, based on MSCI World

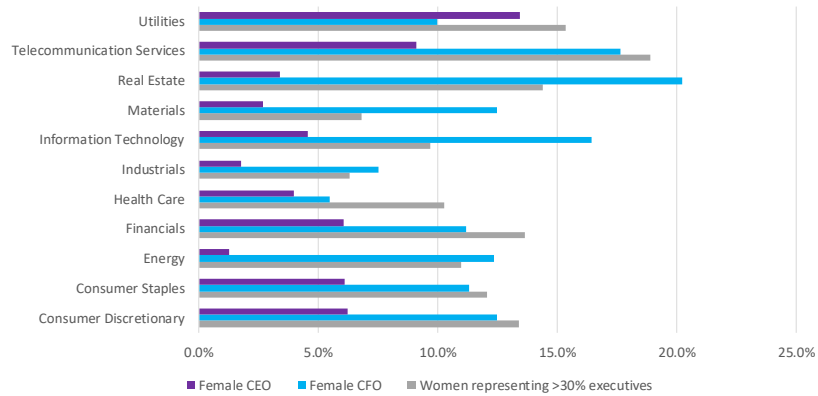
Less-favorable employment conditions, such as part-time and irregular workers not being considered as eligible for career advancement, unequal division of domestic labor and responsibilities, and cultural norms which restrict access to education and advancement in the corporate world contribute to the lack of women in top-level management positions.⁶

Women’s participation varies across sectors

Although few women make it into top-level management positions, women are generally better-represented in the consumer and non-manual sectors. Interestingly, women are also comparatively well-represented in “new economy” sectors such as IT and less well-represented in “old economy” sectors such as the materials, industrials, and energy sectors.

Figure 3: Percentages of Women in CEO and CFO Roles in the MSCI World per sector

⁶ International Labor Office, *Women in Business and Management: Gaining Momentum, Global Report*, 2015



Source: Mirova 2018

High levels of female representation in sectors such as consumer discretion (luxury apparel, HPC, etc.), utilities, telecom services, and real estate are often attributed to a good understanding of target markets (particularly in areas where the target market consists primarily of women) and to greater risk aversion (in sectors such as real estate where financial caution is considered an asset).

Focus on senior management positions

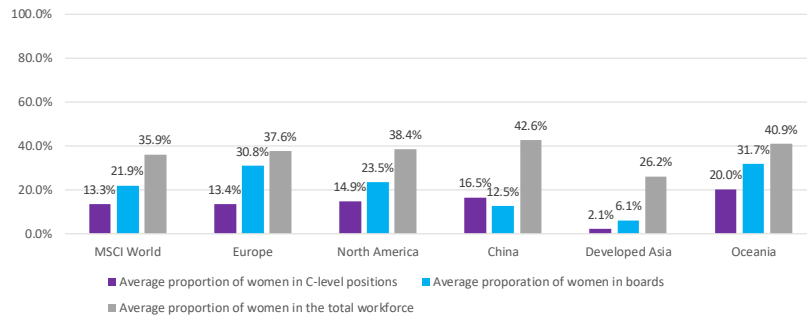
More women on corporate board is not enough

Several European countries (Norway, Denmark, Finland, France, etc.) have taken steps to address this issue, including implementing mandatory quotas for the number of women on corporate boards. These policies have led to real change: several European countries now report that 30 to 40% of directors are women (compared to an average of 22% for the MSCI World index). While these policies have had a positive impact and have helped to increase companies' awareness of the importance of gender diversity, they are also subject to certain limitations.

First, quota systems fail to address "pipeline" issues in companies and therefore don't address the source of the problem. Second, and even more importantly, because a board's role is to supervise a company rather than to manage it, their ability to create a positive "spill-over" is limited: boards aren't able to change a company's culture directly. In Norway, where board quotas have been in place since 2008, research shows that the conditions for women's advancement have not necessarily improved in the last ten years. This suggests that simply having a larger percentage of women on corporate boards is not enough to increase opportunities for women at all levels of a company.⁷

Figure 4: Representation of women in MSCI World index companies

⁷ Bertrand, Black, Jensen, & Lleras-Muney, June 2014, Revised July 2017



Source: Mirova 2018

After studying women’s representation in MSCI World companies, our data suggests that women are no better represented at the executive level in Europe (where many countries have introduced board quotas) than they are in North America (where no such quotas have been introduced, and women represent 23.5% of board members on average). If we continue to focus only on increasing the number of women board members, we run the risk of creating an exercise in “ticking the box,” which ignores larger gender diversity issues.

Women in C-level positions are key for gender equality

We believe that looking at the number of women in top-level executive positions is a more effective way to measure a company’s commitment to increasing gender diversity.

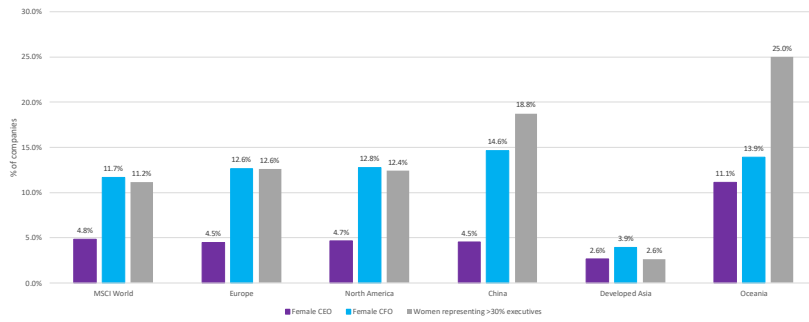
Looking at the number of women in key management roles is a good indicator of a company’s commitment, as the main challenge that companies face when seeking to increase the gender diversity of their workforce is creating a clear career path for women that enables them to advance from middle- to top-level management. Furthermore, as more and more companies implement board quotas, it’s increasingly important to create a bigger pool of highly qualified female candidates with experience in senior management.

Unlike women board members, increasing the number of women in top-level management positions can act as a key driver for increasing diversity throughout a company. For example, after examining gender diversity in 3,000 companies, Credit Suisse Research found that female CEOs were 50% more likely to hire a female CFO and 55% more likely to hire other women to run business units.⁸ What’s more, companies with female CEOs were much more likely to have three or more women on their boards than companies with male CEOs.⁹

Figure 5: Percentages of Women in CEO and CFO Roles in the MSCI World

⁸ Credit Suisse Research Institute, September 2016

⁹ MSCI ESG Research, December 2017



Source: Mirova, 2018

NB: Date coverage for CEO is 87% and for CFO 90%

While there are still relatively few women CEOs, the number of female CFOs is growing, which we see as a positive sign for the future.

Gender diversity and financial performance

Increasingly, the underrepresentation of women in top-level management positions in the private sector is seen as a problem, not only from a **fairness and equality** perspective, but also because it may impede **performance**. There is increasing evidence available that facilitating women's access to higher-level management positions can have positive effects in many areas such as: innovation, sales, reputation, ethics, returns, market prices, etc.

Women in leadership positions and company performance

The effects of increased numbers of women in management has been the subject of much research on the part of academics, brokers, international organizations and business research organizations such as McKinsey and The Boston Consulting Group. It supports the idea that increased gender diversity can lead to better operational and organizational performance. Among the various benefits resulting from a proactive gender diversity policy, companies can expect:

- **Secured talent pipeline.** Women now outnumber their male counterpart in terms of enrollment in higher education programs¹⁰ and represent a large percentage of the workforce and hiring pool in many industries. Considering the current war on talent, businesses must attract and retain female employee as well as male employee if they want to have the most skilled workforce. Proactive diversity practices are a way of securing the much-needed talent pipeline¹¹, especially in countries facing labor shortage due to aging populations.
- **Increased innovation, creativity, and better decision-making.** Inclusive and diverse environments result in a variety of different perspectives which foster innovation and lead to better management decisions. The Boston Consulting Group and the Technical University of Munich conducted an empirical analysis on the relationship between diversity in management and innovation. They found that companies with the greatest gender diversity manage to generate about 10% additional revenues from innovative product and services compared with companies that have below-average diversity on their management team. The evidence also suggests that having a high percentage of female managers is positively correlated with disruptive innovation, defined by the BCG as situations in which a new product,

¹⁰ UNESCO Institute for Statistics, 2014.

¹¹ McKinsey & Company, October 2017. *Women Matter Time to accelerate, ten years of insights into gender diversity.*

service, or business model fully replaces the version that existed before.¹²

- **Better customer insight resulting in increased sales.** By contributing different perspectives, women in management help notably in understanding the customer base, especially in a consumer market which is increasingly led by women¹³. Indeed, women account for the vast majority of household spending decisions and thus represent a growing portion of the customers, clients, and partners of many businesses. Here again, research has shown that average sales growth for companies with more than 50% female representation in senior management amounted to 8% between 2008 and 2016 (vs. -0.2% for MSCI ACWI)¹⁴.
- **Strengthened employee motivation and engagement leading to higher retention rates along with increased productivity.** There has been extensive research in management literature highlighting the benefits of employees' perception of equal treatment, inclusiveness and support to their career advancement. The main benefits for companies are higher retention rates, strengthened motivation, and increased productivity¹⁵.
- **Enhanced corporate reputation.** At a time where all companies' stakeholders, from consumers to investors, are increasingly paying attention to practices regarding equal opportunity and inclusion, companies that embrace gender diversity benefit from enhanced corporate reputation. As such, almost 70% of the companies surveyed by the European Commission which have implemented diversity policies have noted an improvement on their brand image¹⁶.
- **Lower probability of ethical and legal troubles.** According to researchers from University of North Carolina and Wake Forest, female CFOs are less likely to employ riskier tax-avoidance measures and are more likely to improve profitability.

Each of these factors contribute to the strengthening of human and organizational capital which, as highlighted in the European Commission report on the "Cost and Effectiveness of Diversity", are among the main "intangible assets used by companies to establish a competitive advantage and to create value".⁸

Research focusing specifically on gender diversity shows that appointing women to senior management positions has a greater impact than appointing

¹² The Boston Consulting Group, Lorenzo R., Voigt N., Schetelig K., Zawadzki A., Welpel I., and Brosi P., *The Mix That Matters, Innovation through Diversity*, 2017

¹³ According to the McKinsey's 2017 study "Women Matter", 70% of household purchase in Europe are driven by women.

¹⁴ The Credit Suisse Research Institute, September 2016. *The CS Gender 3000: The Reward for Change*.

¹⁵ "The impact of Women managers on Firm Performance: Evidence from Large U.S. Firms", James J. Cordeiro, Susan Stites-Doe, 1997

¹⁶ "Cost and Effectiveness of Diversity", European Commission, 2003

women to non-executive positions. A study conducted by the Peterson Institute for International Economics and EY using a global data set of nearly 22,000 firms examined the impact of gender diversity on corporate performance. While the results revealed no significant correlation on women representation at the board level and increased corporate performance, it concludes that “the correlation between women at the C-suite level and firm profitability is demonstrated repeatedly and the magnitude of the estimated effect is not small”¹⁷.

Investing in companies which champion gender diversity can therefore lead to better investment decisions because organizational excellence is a key driver to company’s overall performance. Although it is difficult to prove causality, extensive research found a strong correlation between the competitive advantage resulting from proactive gender diversity approaches and company’s financial performance. This is reflected by:

- **Increased Profitability.** Based on the analysis of 300 companies around the world, McKinsey’s found that companies with the highest proportion of women in their executives committee generated a premium of 55% in operating results¹⁸. Correspondingly, a study by the Peterson Institute for International Economics suggested that having 30% of women in corporate leadership positions can be associated with a one percent increase in the net margin—equivalent to a 15 percent rise in profitability¹⁰.
- **Higher Returns.** Gender diversity champions offer a 47% premium on Return on Equity (ROE) according to McKinsey, and approximately 15% higher dividend payout according to the Credit Suisse Research Institute¹⁹. A similar study conducted by Catalyst examining 353 Fortune 500 companies found a 34% premium on Total Return to Shareholders (TRS)²⁰.
- **Better share price performance.** As highlighted in Figure 6, the greater the proportion of women in senior management, the better share price performance.

Figure 6: Company Performance and Gender Diversity

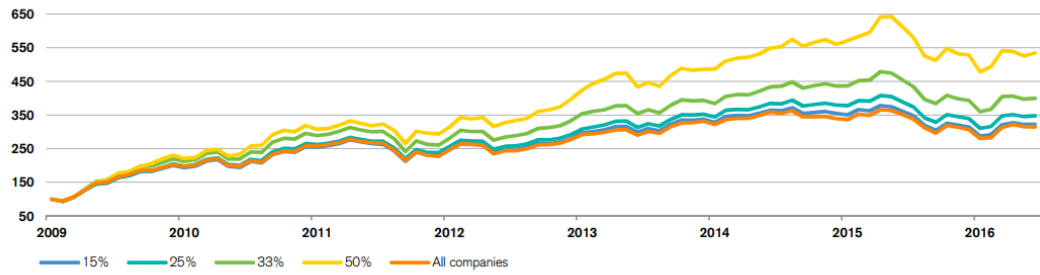
¹⁷ The Peterson Institute for International Economics, Noland, Moran, & Kotschwar, 2016. *Is Gender Diversity Profitable? Evidence from a Global Survey*.

¹⁸ McKinsey & Company, October 2017. *Women Matter Time to accelerate, Ten years of insights into gender diversity*.

¹⁹ Credit Suisse Research Institute, September 2016. *The CS Gender 3000: The Reward for Change*.

²⁰ Catalyst. 2004, “The Bottom Line: Connecting Corporate Performance and Gender Diversity”

Share price performance for baskets with different tiers of female participation in senior management



Source: Bloomberg, CS Gender 3000

Figures provided relate to previous years and Past performance is no indicator of future performance.

In short, increased gender diversity, particularly at the C-suite level, has a positive financial impact associated with a strong social impact.

Building an investment strategy for women’s empowerment

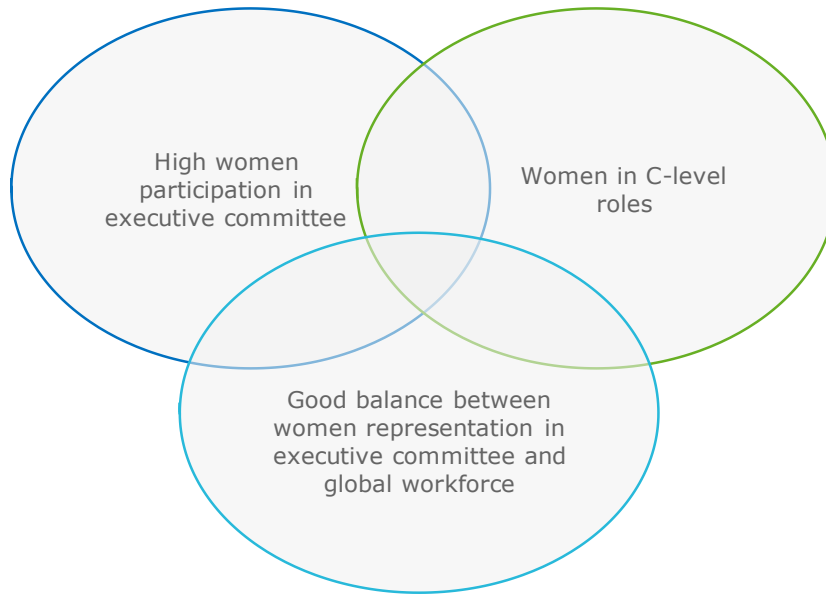
Robust and objective criteria

In light of the previously-mentioned research, we feel that it makes sense to focus our research on women in executive-level management. We used the following objective criteria to screen companies on women’s empowerment:

- A high percentage of women on the Executive Committee,
- One or more woman in C-suite level positions (CEO, CFO, etc.),
- A good balance between the percentage of women on the Executive Committee and the percentage of women in the workforce²¹.

Figure 7: Criteria for measuring women’s empowerment in companies

²¹ These criteria are designed to target companies which are committed to increasing gender diversity, while also acknowledging the disparity in the percentage of women across different sectors.



A comprehensive qualitative review of each company’s gender diversity policy

While the identification of relevant quantitative criteria facilitates the screening of a very large number of companies, a comprehensive qualitative review of gender diversity policies and measures should be systematically conducted to measure the strength of their gender diversity approach.

Treating gender diversity like the business priority it is

As with any other business priority, companies should start addressing gender diversity by defining the baseline, setting the relevant targets, monitoring KPIs and finally, holding leaders accountable for the outcome. Gender audits can help organizations to assess where they stand regarding gender diversity and to identify relevant areas for improvements.

Targets will vary from one industry to another depending on where the biggest challenges lie. While we encourage the adoption of quantitative targets in terms of women’s access to top management positions, those targets should be particularly ambitious in sector where women represent a large proportion of the global workforce. Conversely, in sectors where women are traditionally under represented such as materials or utilities, increasing the proportion of women in the global workforce is the first step towards gender equality. This aspect can be addressed through programs aiming at increasing awareness among students about career opportunities for women or through the adoption of quantitative targets related to recruiting women to fill positions at every level.

Implementing measures that are specifically aimed at promoting women’s access to top management positions

Here again, extensive research based on companies’ surveys and interviews conducted by leading consulting firms has identified the most important areas to focus on and the most efficient ways to make real progress towards gender equality. We are especially interested in:

- The implementation of dedicated leadership training for women identified as having “high potential”.
- Sponsorship initiatives involving both men and women which encourage men to support women career’s progression. The Boston Consulting Group study claims that “the more that men are involved in gender diversity program, the more progress the company makes”²².
- Unconscious bias training targeting both HR teams and senior managers. Unconscious bias impact women potential for advancement in the corporate world at all stages: from hiring to retention and promotion. Which is why it is critical that companies take concrete action to counter it ²³.
- Transparency regarding the gender pay gap and measures in place to reduce it, not only on the base salaries but also including discretionary pay.
- Measures to improve work-life balance and to help women manage their historical “double burden”, including subsidized access to child care, flexible work options and paid parental leave for both men and women.
- The internal promotion rate for women. When companies use external hiring to improve gender balance in top management, this means that there may not be a clear path in place for women to advance within the company.
- The commitment of senior role models, including the CEO, to gender diversity, which helps to drive the cultural change required to achieve gender equality. Best practices include gender diversity objectives in the variable remuneration of senior managers and HR teams.

Ultimately, the implementation of proactive gender diversity policies and measures associated with relevant targets should result in significant progress that will eventually be reflected by quantitative indicators including an increased proportion of women in senior management and on the executive committee.

Characteristics of an investment universe created using these criteria

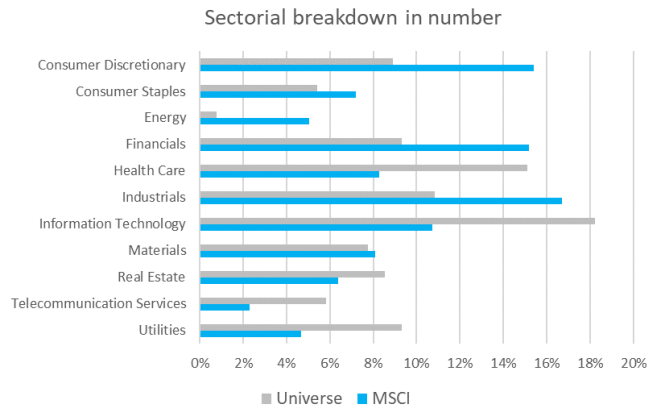
By using the criteria above, we’ve created an investment universe of approximately 258 companies²⁴ with the following characteristics.

²² The Boston Consulting Group, 2017. *Proven Measures and Hidden Gems for Improving Gender Diversity*.

²³ McKinsey & Company, 2018. *Women in the Workplace*.

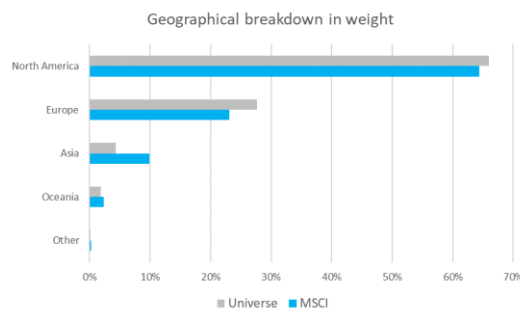
²⁴ This investment universe includes companies identified using the criteria outlined above which also meet our standard ESG criteria.

Diverse sectors with strong focus on IT and Health Care



Source: Mirova, 2018

No significant geographical bias



Source: Mirova, 2018.

The geographical diversity of this investment universe is consistent with the MSCI World exposure, there is no significant geographical bias.

This investment universe reflects the high level of selectivity as it only comprises about 250 stock names. It stems from our requirements regarding gender diversity on both quantitative and qualitative aspects. Nevertheless, this universe, in our opinion, offers sufficient depth to implement a global equity strategy on this thematic, which is balanced and diversified in terms of both sector and geography.

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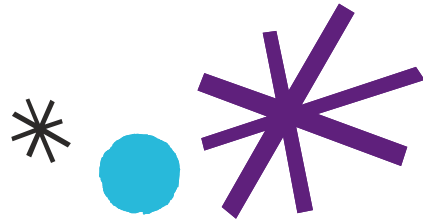
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