

Research Reporter

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Vive la Variété!

Diversity and equality are on investors' radar

Recent headlines frequently reference #MeToo or #TimesUp when updating readers on the latest allegations and accusations of sexual assault and harassment, particularly persistent in media workplaces. However, more and more groups feel these hashtags and movements are not unique to Hollywood or media roles; rather, calls for gender equality and workplaces free from sexual harassment and assault apply broadly to other industries from technology to financial services.

In fact, all types of companies can be affected by a lack of diversity or workplace respect. Negative effects include reputational damage or headline risks, and discrimination or harassment lawsuits. Without proper management, these risks may become a harrowing reality for companies that do not address equality and diversity.

The #MeToo movement struck a chord not only with the public, but also with many investors. Investors are concerned that companies who find themselves subject to high-profile harassment incidents could feel the impact on their financials or share price. Twenty-First Century Fox exemplifies the negative consequences and repercussions: Fox incurred over \$200 million in costs related to lawsuits, severance packages, and shareholder claims over the allegations and controversies of sexual harassment in its workplace.¹ Eliminating gender or sexual discrimination and harassment in the workplace is a priority for many companies; mitigating such risks through training and proper response to reported incidents can help a company avoid substantial

legal expenses, the loss of talented employees, and reputational damage.

Beyond avoiding negative press, companies that adequately prepare for the risks and opportunities related to diversity may actually reap measurable benefits. Companies that embrace diversity in their ranks and leadership may see useful functional changes such as more creative thought processes and ideas or more effective working teams; in turn, this can lead to outperformance of peers.

Companies with a female CEO find the market is willing to pay a 19% premium price to book multiple, the company's ROE is 10% higher on average, and the dividend payout is 9% higher.² Gathering top-rated companies that advance women onto boards and into executive management, the Pax Ellevest Global Women's Index Fund (PXWEX) outperformed global funds like the MSCI World Index in 2017.³

Improved workplace diversity and equality positively affect more than just individual companies; the campaign to achieve gender equality is reinforced by a strong economic case with widespread national impacts.

Since 2008, women have accounted for 70% of spending decisions.⁴

Data underscores women's powerful role in cash flows and possession of significant wealth. Over

time, the female global labor force has grown in both size and stature, resulting in considerable impacts to national and global economies. And as women's roles continue to grow in number and leadership, so will these effects; for example, increasing female employment in Great Britain could add £150 billion to the national GDP by 2025; in the U.S., \$4.3 trillion could be added to the national GDP by 2025 if full gender parity in the workforce is achieved.⁵ Recognizing how a country's diverse population translates to real economic impacts, it is no surprise that women also hold significant investment power; in the U.S., women control 51% of all private wealth and own 30% of all private businesses.⁶

How can companies overturn their lack of diversity and unlock these economic benefits? Board level diversity sends a strong message to the whole company that all people and their ideas are welcome. At the executive and management levels, diversity is important to better understand employees' experiences and concerns. Employees feel empowered to express ideas and concerns to management when they feel represented, included, and valued. Employee network groups can be a helpful method for companies to provide resources and mentoring to employees of shared experiences or demographics.

Building diversity starts early, when hiring a new employee, by broadening the list of applicants and including diverse candidates in the application and hiring process. This principle is called the Rooney Rule: any organization or company looking to hire

should cast the widest net possible to reach numerous candidates, including diverse candidates, still without settling for less-than-the-best candidate in the final hiring decision. Despite its origins in the sports world, many organizations have come to believe the Rooney Rule principles apply to businesses across all sectors.⁷

At the top 10 largest hedge funds (by AUM), women hold only 11.2% of all senior positions and 6% of roles on investment and portfolio management teams.⁸

The financial services industry is growing more introspective and aware of its own lack of diversity. Many industry players recognize the uniformity of the sector's workforce. The CFA Institute has a goal to bring more women into the financial services industry; the Future of Financial Initiative seeks to increase and improve available information and data transparency in the investment industry's gaps between male, female, and ethnic employees. Asset managers including CalPERS, Natixis Investment Managers, Aviva, Generali, and the Canada Pension Plan Investment Board are among those who have joined the institute's plan.⁹ Senior VP at Walden Asset Management Tim Smith reminds asset managers and institutional investors not to "assume diverse teams will automatically produce better investment results, but [they] should think about the benefits of diversity more broadly...more diversity, whether on the board of Walmart or Alphabet or in top management of a firm or of the investment team, enriches the decisions being made by the team."¹⁰

Of course, more diverse and equal workplaces aren't achieved overnight. Even inside the high-profile walls of the New York Stock Exchange (NYSE), the first female president has only just been named (May 2018). After 226 years in

Points for Progress

Black Coaches in the National Football League: Superior Performance, Inferior Opportunities was an eye-opening report written by attorneys Johnnie L. Cochran and Cyrus Mehri in 2002. The report documented the unfair hiring processes used by NFL teams. After forming a diversity committee headed by Pittsburgh Steelers owner Dan Rooney, the League announced a plan requiring each team to interview at least one minority candidate prior to selecting and hiring a new head coach. This principle became known as the Rooney Rule.

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operation, Stacey Cunningham will be the first woman to lead the NYSE.¹¹

There are resources for the financial services industry that shed light on smaller, more diverse investment managers, and which help larger managers improve their commitment to diversity and inclusion. Two such groups are:

Diverse Asset Managers Initiative (DAMI)

- DAMI is a group of financial services professionals, institutional investors, corporate and philanthropic board members, union leaders, and trade associations.
- DAMI seeks to increase the absolute number and AUM of diverse-owned asset management firms for institutional investors, with a specific focus on public, corporate, faith, and labor union pension funds, as well as foundation and university endowments.
- DAMI partners with investment consultants to educate them about the opportunity to diversify existing pools of investment managers that they recommend to their institutional clients and help them to meet their fiduciary responsibilities.¹²

Workforce Disclosure Initiative (WDI)¹³

- WDI is an initiative from ShareAction, which is a group sponsored by the U.K. Department for International Development. WDI is run in partnership with Oxfam.
- WDI brings institutional investors together to secure comparable annual workforce reporting from listed companies. The data requested covers employees in companies' global operations and workers in their supply chains. WDI is modeled on the CDP (formerly Carbon Disclosure Project).
 - Data requested includes: headcount, gender composition, contract types, wage levels, pay ratios, gender pay gap, workforce turnover, workforce training,

grievance mechanisms, discrimination and harassment, freedom of association, and whistleblowing, among other data points.¹⁴

- WDI also engages the companies through letter campaigns and dialogues to help companies and investors mutually understand diversity and the importance of workforce disclosure.

Some corporate leaders are setting examples of best practices in diversity for both their peers and companies across different sectors. Measuring, tracking, and reporting are key components to understanding diversity and equality at any given company. Further metrics include how well the company interacts with its communities, which may be very diverse or enriched by many cultures and genders. *Figure 1* (shown on next page) highlights five companies' actions, across different sectors, as pertains to incorporating diversity and equality in the workplace and in the community.

Certain public figures and corporations have lately found themselves spiraling after headlines revealed allegations of gender, cultural, or sexual discrimination, harassment, or assault. Some have sprung to action in response, and others have faced lengthy and costly consequences. Investors and companies should be aware of the risks and opportunities that come from a lack of diversity and equality in the workplace. Over time, companies have shifted how they interact with their employees and local communities; this shift has altered how they are viewed by the public. Companies that nurture these relationships through strong diversity and equality may reap advantageous benefits internally and for their regional economies; those that turn a blind eye to equal and diverse workplaces may find themselves ostracized by customers or communities.

Figure 1

Company	Special Company Actions & Highlights
salesforce.com Inc. (CRM) Women on Board: 25% Women in Management: 19%	CRM advances equality across four key areas: Rights, Pay, Education, and Opportunity. The Chief Equality Officer is responsible for leading the company’s equality initiatives, focusing on gender, LGBTQ, and racial equality, and reports to the Chairman and CEO. Keeping with best practice, Salesforce discloses high-level metrics on its employees’ ethnicity and gender. In 2017, CRM conducted its second pay assessment and spent approximately \$3 million to address any unexplained differences in pay.
TJX Companies Inc. (TJX) Women on Board: 40% Women in Management: 65%	TJX participates in two programs dedicated to diversity and inclusion. Conexion (Boston) pairs Latino Associates with seasoned mentors in various industries and provides leadership workshops. The Partnership (nationwide) hosts year-long leadership and culture programs for TJX Associates, as well as a Next Generation Executive Program. TJX actively brings together Associate alumni of both programs to build a network of support and encourage learning. TJX is also piloting new initiatives like unconscious bias training and diversity and inclusion guides for associates, managers, and human resources.
CVS Health Corp. (CVS) Women on Board: 33% Women in Management: 68%	CVS actively recruits bilingual pharmacists for Spanish-speaking communities across the U.S. In 2017, CVS launched a new pharmacy intern program for bilingual pharmacists, focusing on understanding specific needs of the Hispanic community, improving Spanish fluency, and building pharmacy skills.
American Water Works Co. Inc. (AWK) Women on Board: 40% Women in Management: 24%	AWK believes diverse employees help it successfully serve its diverse customers nationwide. The company seeks to foster an environment of safety, innovation, and great customer service. The American Water Diversity and Inclusion Advisory Council functions as a recommending liaison to all parts of the business regarding diversity, equity, and inclusion.
PNC Financial Services Group, Inc. (PNC) Women on Board: 25% Women in Management: 30%	PNC’s employees are 60.4% female, 39.2% male. PNC has many strong programs dedicated to diversity and equality in the workplace and across all levels of hiring and dismissal processes. Multiple Employee Business Resource Groups and mentoring programs are available. PNC promotes cultural diversity through its History and Heritage program which involves community action, employee events, event sponsorships, and advertising. PNC encourages employees to contact the Office of Diversity and Inclusion for any concerns or resources.

Note, some of these companies are held in the 1919 Socially Responsive Balanced Fund; their ownership should not be considered a recommendation for purchase. Information contained in the table obtained via Bloomberg and public company records.

¹ Vezér, Martin, and Doug Morrow. *ESG Spotlight: The rise of gender equity: momentum building in key markets*. Sustainalytics, 2018.
² "The CS Gender 3000: The Reward for Change," Credit Suisse Research Institute, Sept. 2016.
³ "Pax Ellevest Global Women's Index Fund Outperforms Global Markets for 2017." PAX Ellevest Management LLC, 14 Jan. 2018.
⁴ "The CS Gender 3000: The Reward for Change," Credit Suisse Research Institute, Sept. 2016.
⁵ Incorporating diversity into passive investments, FTSE Russell Insights, McKinsey & Co., Feb. 2018.
⁶ @Stifel. "Here are some interesting facts as we celebrate International Women's Day! #InternationalWomensDay2018." 8 Mar. 2018, 11:47 a.m., twitter.com/Stifel/status/971834886804967424.
⁷ "Fritz Pollard: History." *Fritz Pollard Alliance*, Fritz Pollard Alliance.
⁸ Tomkiw, Lydia. "What Does Gender Diversity Look Like at Top Hedge Funds?" *FUNDfire*, 14 Mar. 2018.
⁹ Tomkiw, "What Does Gender Diversity Look Like at Top Hedge Funds?" *FUNDfire*, 15 Mar. 2018.
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¹¹ Romo, Vanessa. "A Woman Has Been Named As NYSE President. It Only Took 226 Years." *the two-way*, NPR, 22 May 2018.
¹² "Background." *Diverse Asset Managers Initiative*.
¹³ "Introduction to the Workforce Disclosure Initiative." *Workforce Disclosure Initiative*, ShareAction, Dec. 2017.
¹⁴ "The Workforce Disclosure Initiative (WDI) survey development process." *Workforce Disclosure Initiative*, 2017.

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