

GENDER DIVERSITY



As responsible investors, we take into account a number of environmental, social and governance issues. In this Expert Briefing, we look particularly at the governance issue of gender diversity, and outline why it is important to us and how we have integrated this into our engagement strategy with companies and our voting policy.

WHY DOES DIVERSITY MATTER?

We believe that companies that are genuinely alive to the business advantages of encouraging and empowering diversity will be the better performers over the long-term. Companies failing to recruit and promote from a diverse talent pool are missing out on the skills and expertise of 50% of the population. According to the ICGN's global governance principles, *"there should be a sufficient mix of directors with relevant knowledge, independence, competence, industry experience and diversity of perspectives to generate effective challenge, discussion and objective decision-making"*. In our opinion, this is unlikely to be achieved when all Board members are the same gender. There is considerable academic evidence to support the view that Boards make better decisions when there are a variety of voices, opinions and expertise present so as to avoid 'group-think'.¹ Therefore diversity is a key business issue, and lack of it a key risk.

HOW DIVERSE ARE UK BOARDS?

Over the last decade, there has been significant movement in the gender composition of FTSE350 Boards. In 2011, Lord Davies published his review - 'Women on Boards' - highlighting the fact that women made up just 12.5% of FTSE100 Board positions. In 2015, Sir Philip Hampton and Dame Helen Alexander took over the review and in the recent publication of the 2018 Hampton-Alexander Review, a very different picture was revealed. The number of women on FTSE 100 Boards has exceeded 30% for the first time in 2018, and in the FTSE 250 women held 24.9% of director positions. The number of all-male Boards has also reduced

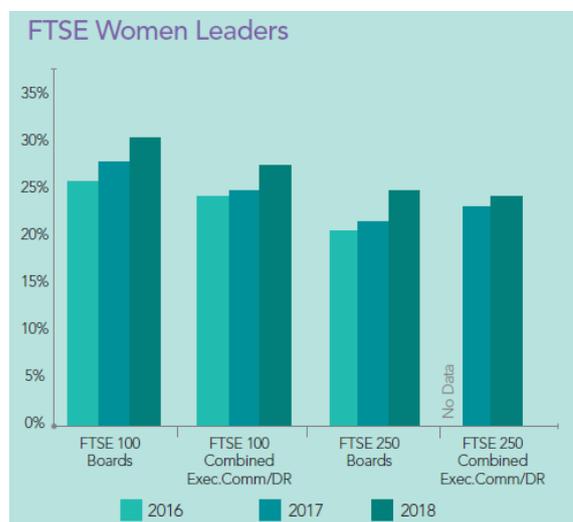
significantly. In the FTSE350 only five companies now have all-male Boards.

WHAT IS THE SITUATION IN OTHER COUNTRIES?

Gender diversity has risen on the agenda of UK companies, but progress has also been made elsewhere. In Australia, women represent 31.4% of directors on the S&P ASX and in the US, women hold 26.1% of director positions in the S&P100, whilst in France, women now represent 41.4% of directors on the CAC40. However, some countries are not making as much progress. Whilst there are efforts to improve diversity, in Hong Kong, the Hang Seng-50 remains at a low 13%. In Japan, only about 10% of Board positions are held by women out of the 2000 companies listed on the Tokyo Stock Exchange primary list. Indeed, a lack of diversity in corporate Japan is one reason often offered for Japan's corporate scandals and poor accountability. According to Sarah Parsons of Japan in Perspective – a business consultancy – *"any movement to change the corporate culture so that more women can operate at a Board level with equal levels of authority would certainly create a seismic shift in the way Japan does business"*.

HOW HAS PROGRESS BEEN ENCOURAGED?

In the UK, a voluntary approach has been adopted since 2011, when Lord Davies set a voluntary target of 25% female



¹ Women Matter: Gender diversity, a corporate performance driver (2007), McKinsey; The Bottom Line: Connecting Corporate Performance and Gender Diversity (2004), Catalyst; Gender diversity and corporate performance (2012), The Credit Suisse Institute

GENDER DIVERSITY



directors on FTSE100 Boards by 2015.

The voluntary approach has proven to be effective in the UK market, while other countries have adopted a regulatory or quotas based approach. Norway and France introduced a mandatory 40% quota in 2003 and 2017 respectively where non-compliance can result in a fine or sanctions, whilst Germany set a quota of 30% of women on Supervisory Boards (but not Management Boards) in 2016. The UK's voluntary approach took a step further when the Hampton-Alexander review took over in 2015 and set companies in both the FTSE100 and FTSE 250 the target of 33% of women on Boards by 2020, as well as 33% representation of women on FTSE 350 Executive Committees and the Direct Reports to Executive Committee.

DOES EDENTREE SUPPORT QUOTAS?

The UK has adopted a voluntary approach using targets to drive change. Whilst France, which has adopted quotas, leads the way in gender diversity on European Boards, all countries face the same challenge in achieving meaningful changes at all levels especially at senior management and executive levels. We do not believe quotas set at Board level without additional initiatives to drive change at other levels will be meaningful and so we favour a voluntary but holistic approach to achieving gender parity.

WHAT ROLE DO INVESTORS HAVE?

In the UK, investors have played a crucial role in accelerating the debate around gender diversity in boardrooms.

Many investors, including EdenTree, have also integrated diversity into their voting policies, taking action against Chairs of Nomination Committees where insufficient progress has been achieved.



Initiatives such as the 30% Club Investor Group have also contributed to raising awareness of diversity as a business issue. The UK investor coalition has

gathered the support of over 30 institutional investors, that have committed to exercise their ownership rights through voting and engagement to effect change on company Boards and within senior management teams. EdenTree is proud to have led and supported some of these engagement initiatives with senior management.

WHAT MORE IS NEEDED?

Whilst progress has been made, it is still not enough. 38 FTSE 100 companies have already reached the 33% target, which means however that around two thirds of them have not - with only two years left to do so. Whilst all-male Boards have become uncommon in the FTSE350, at many companies progress has stalled following the appointment of one female director. In the latest Hampton-Alexander review, there was a clear call to action: "It is time to call out the 75 at 'One & Done' Boards that are dragging overall progress downwards." Whilst we see more women on Boards, the roles of Chairs and CEOs are still mostly held by men and only 15% of Senior Independent Director positions across the FTSE100 are held by women.

HOW ABOUT PROGRESS OUTSIDE THE BOARDROOM?

Much of the initial focus has been on increasing the number of female directors. However, many of these positions have been in Non-Executive roles. In order for progress to be sustainable in the long-term and in order to see more progress on executive positions, it is important also to look at the talent pipeline. The encouragement of female talent is therefore vital in order to create tomorrow's pool of Chief Executives and Finance directors. Hence, we want companies to take diversity into account at all stages of the pipeline, starting at graduate recruitment, all the way to team leader promotions and in assigning senior management roles.

HOW CAN THIS BE ACHIEVED?

In order to promote real gender diversity, companies need to think about the pipeline of talent. Several sectors have come together to tackle the lack of gender diversity. The Women in Finance charter as well as the "Tech She Can" initiatives are just two UK based examples designed to attract more women

GENDER DIVERSITY



to these sectors. Companies themselves have been trialling different initiatives including tailored leadership programmes, female mentoring schemes, unconscious bias training as well as equal parental leave policies. Other factors such as childcare and bias in the education system also need to be addressed.

HOW ABOUT OTHER FORMS OF DIVERSITY?

Diversity of course is not just about gender and has many different facets. We generally believe that diversity of thought is crucial and companies should seek to have senior management teams and Boards that are representative of their employee base, their customers and wider society. We support the work done by the Parker Review on ethnic diversity of UK Boards, but have focussed our engagement with companies on gender diversity given that women represent 50% of the population.

WHAT IS EDENTREE'S APPROACH?

Since the launch of the Davies review, EdenTree has tracked the progress of diversity in FTSE 100 companies and successively at FTSE 250 companies. Since 2016, gender diversity has been integrated into our UK voting policy and, since 2018, also in our overseas voting policy without exception. As a committed member of the 30% Club Investor Group, we have also been engaging with companies on their diversity efforts, both collaboratively with other institutional investors, and on our own. This has already resulted in opposing the re-election of several Chairs of Nominations Committees in the UK and overseas. At EdenTree, 33% of our Board is female and 38% of our management committee. As a business, our parent - Ecclesiastical Insurance Group - was one of the founding signatories of the Women in Finance Charter. The group has set a target of 45% of our combined senior management and management group to be women by 2020.

GENDER DIVERSITY



THE EDENTREE RI TEAM



Neville White
Head of SRI Policy
and Research



Esmé van Herwijnen
Responsible Investment
Analyst



Jon Mowll
Responsible
Investment Analyst

We have a specialist in-house Responsible Investment (RI) team who carry out thematic and stock-specific research to identify ethically responsible investment ideas for our range of Amity Funds. Headed up by Neville White, Head of SRI Policy & Research, and supported by Responsible Investment Analysts Esmé van Herwijnen and Jon Mowll, the team is also responsible for creating an on-going dialogue with companies, allowing us to engage on a wide variety of ethical and socially responsible investment concerns. Our ethical and responsible investment process is overseen by an independent Amity Panel that meets three times a year, and comprises industry and business experts, appointed for their specialist knowledge.

We hope you enjoy this RI Expert Briefing and find it useful and informative. For any further information please contact us on 0800 011 3821 or at ifa@edentreeim.com