



ERIN D. H. GRAY, ANALYST, RESEARCH

CLEARSTEAD HOSTS SECOND 'CLEARPOINT ROUNDTABLE'

Clearstead convened its second **ClearPoint Roundtable** on February 26, 2019, exploring industry trends in institutional and private wealth management. Titled, *"The Cost of Conscience: Charting ESG Roadmaps for Institutional Portfolios,"* the roundtable brought together top experts in academia, financial services, and law to help institutions and individuals navigate the issues surrounding Environmental, Social, and Governance (ESG) investing – what Clearstead terms **Responsible Investing**.

Key Insights and Takeaways

- ESG will continue to grow, and measurement of a company's ESG ratings will become imbedded in the investment process.
- "Follow the talent and you'll find alpha, especially among ESG investment managers."
- The private equity market is prime for more ESG investments.

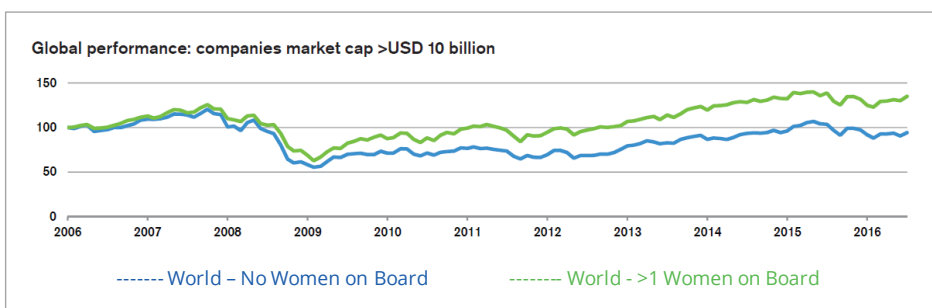
Click [HERE](#) to read a detailed review of the ClearPoint Roundtable.

THE FEMALE FACTOR

BY ERIN D. H. GRAY, ANALYST, RESEARCH

Factor investing is a strategy to choose investments on specific attributes associated with higher returns or risk mitigation. Factor investing might focus on one or more of the following attributes: volatility, momentum, quality, size, or value. There is one factor, however, that frequently may be overlooked – the female factor. Public companies with more than one woman on the corporate board have provided excess returns of about 3.5%¹ annually for investors, compared to companies with all male boards. As the following chart illustrates, this correlation has held strong since 2008 and has steadily increased as women's participation on corporate boards has become more widespread.

Correlation Between Diversity and Corporate Performance is Strong



Source: Bloomberg, Credit Suisse Research

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Further, studies conducted by Catalyst, a market research firm, report that *Fortune* 500 companies with three or more women on their boards have stronger financial results: return on equity is 16.7% versus an average of 11.5% and similar results are seen for return on sales and return on investment capital². Catalyst also found that companies with the highest percentages of women directors tend to be leaders in innovation and employee retention. Although correlation does not prove or imply causation, the linkage between corporations that leverage diversity and outstanding financial performance is strong.

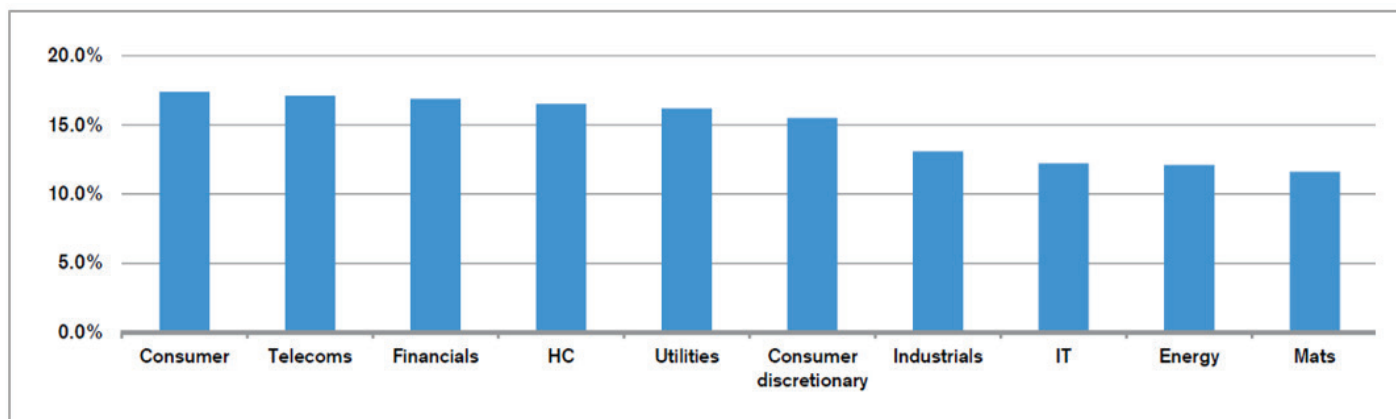
Several rating agencies and investment funds, such as CalPERS and PAX World, have recognized the correlation between higher percentages of female board members and financial outperformance, and have incorporated it into their investment philosophies. CalPERS and PAX World use female board membership as one of their investment selection criteria, for example.

TRENDS IN BOARD GENDER DIVERSITY

Globally, the percentage of women on boards has continued to increase since 2010. The global average in 2010 was 9.6% and has grown to 14.7% at the end of 2015³. Asia has shown considerable improvements with a 60% rise in gender diversity at the boardroom level³. This comes from a low base, however, and even with this improvement, female representation in Asia is still less than 10%³.

Diversity in the boardroom not only varies by geography but also by industry sector, as shown in the chart below.

Diversity in the Boardroom by Sector



Source: Bloomberg, Credit Suisse Research

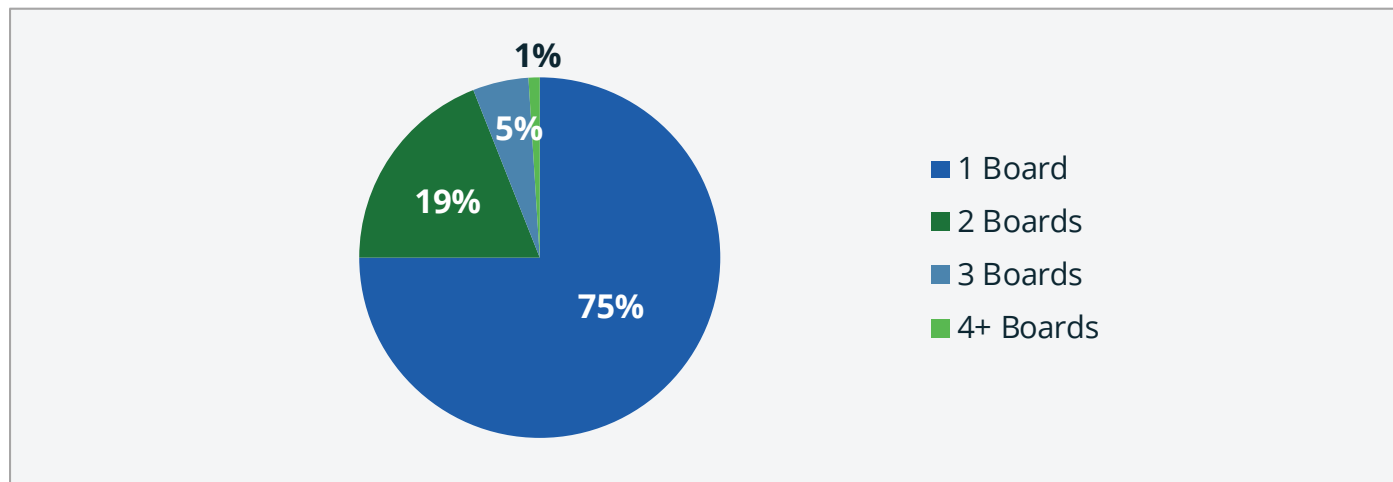
Organizations, such as the 30% Club and 2020 Women on Boards are encouraging companies nationally and globally to increase female board representation. The 30% Club originated in the United Kingdom in 2010 and the U.S. chapter launched in June 2014 with a goal of achieving 30% female directors on S&P 100 boards by 2020. Many firms have become signatories of the 30% Club, including Japan’s Government Pension Investment Fund, JPMorgan Asset Management, Standard Life, and BlackRock. Today, the 30% Club reports that 23.6% of S&P 100 directors are women, up from 20.2% at launch.

2020 Women on Boards began in 2010 as a national campaign to increase the percentage of women on U.S. company boards to 20% or greater by the year 2020. This organization reported that in 2017, women represented 19.8% of board members on Fortune 1000 companies, up from 14.6% in 2011. 2020 Women on Boards’ research on Fortune 1000 companies found that 1,386 women held a total of 1,830 board seats combined. The breakdown is illustrated in the chart on the next page.

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Female Directors on Fortune 1000 Boards



Source: 2020 Women on Boards: Boardroom Diversity: When Women Lead, 2016

IS THE LINKAGE BETWEEN BOARD DIVERSITY AND BETTER PERFORMANCE TALENT MANAGEMENT?

A Peterson Institute for International Economics study hypothesized that increased skill diversity within top management and less gender discrimination throughout the management ranks helps to recruit, promote, and retain talent⁴. MSCI ESG Research has examined the relationship between workforce management practices and board gender diversity to see if there is a correlation between these factors, and to see if leaders in these two areas experienced better financial performance than those without such qualities. The five metrics used by MSCI to analyze talent management qualities are workforce engagement surveys, leadership training programs, workforce diversity, training hours, and support for degree programs. MSCI's research revealed that nearly half of the companies in the study defined as "Talent Leaders" had 3 or more women on boards while only 10% of the "Talent Laggards" had 3 or more women.

MSCI previously found that "Talent Leaders" had higher growth in employee productivity than did "Talent Laggards;" as such, in this study, MSCI "...hypothesized that if board gender diversity reflects an extension of corporate attention to talent management, it would be reflected in employee productivity growth." The findings showed that the combination of "Talent Leaders" and 3 or more women represented on corporate boards experienced the best growth in employee productivity. When this factor is executed effectively, MSCI believes this could contribute to higher long-term value creation by the firm.

Additional studies have determined that the differences women bring in terms of perspective, education, and style of conduct give companies a boost in their social conscience⁵. While we all appreciate there may be characteristic and style differences between men and women, it is the recognition of the differences and leveraging the opportunities these anomalies present that improve the decision-making process. As Lehigh University professor Corinne Post says, "So when there's a discussion in the boardroom, those views – thinking about the implications for the communities the organization works in, what are the implications for employees – might be more likely to be voiced because those perspectives are represented on the board"⁵.

While the statistics strongly suggest that corporate financial performance improves when gender diversity is prevalent on boards and at senior management levels, the why or causality of this phenomenon has not been answered. However, a group's decision-making improves when the group's collective intelligence represents a broad set of backgrounds and opinions when charting the path to follow. Skill sets are different, and one is not necessarily better than another, but allowing diverse skills to be present and heard enhances the chances for success.

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CLEARSTEAD'S INITIATIVES

Within our firm, we recognize the importance of diversity and have always had female representation on our board of directors. Today Clearstead has two female outside directors, which is one-third of the board. In addition, we have been working towards achieving more diversity among senior leadership. In 2015, Clearstead launched EmpowHER with the mission to recruit, retain, and develop the women of Clearstead. EmpowHER strives to drive the success of Clearstead by empowering women at every level of the firm. EmpowHER has a mentoring program, which enables women of the firm to partner with other women in improving their skills. In addition to the internal initiatives, Clearstead is attending diversity conferences and symposiums and speaking with undergraduates at various universities.

Sources:

- (1) Credit Suisse, "The CS Gender 3000: The Reward for Change," <https://glg.it/assets/docs/csri-gender-3000.pdf>.
- (2) Catalyst, "The Bottom Line: Corporate Performance and Women's Representation on Boards," http://www.catalyst.org/system/files/The_Bottom_Line_Corporate_Performance_and_Womens_Representation_on_Boards.pdf.
- (3) MSCI, "Women on Boards and the Human Capital Connection," <https://www.msci.com/www/research-paper/women-on-boards-and-the-human/0876228691>.
- (4) Harvard Business Review, February 8, 2016, "Study: Firms with More Women in the C-Suite Are More Profitable" Marcus Noland (PIIE) and Tyler Moran (PIIE).
- (5) Forbes, "Why Women on Company Boards Boost Performance," <https://forbes.com/sites/karstenstrauss/2016/04/06/why-women-on-company-boards-boost-performance/#562a050a45d3>.

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Performance data shown represents past performance. Past performance is not indicative of future results. Current performance data may be lower or higher than the performance data presented.

MARKET BENCHMARK RETURNS

February 28, 2019		1M	3M	12M	YTD
US Large Cap	S&P 500	3.2%	1.4%	4.7%	11.5%
US Small Cap	Russell 2000	5.2%	3.1%	5.6%	17.0%
Developed Intl	MSCI EAFE	2.5%	4.0%	-6.0%	9.3%
Emerging Intl	MSCI Em Mkt	0.2%	6.1%	-9.9%	9.0%
Real Estate	NAREIT	0.5%	3.3%	19.0%	12.0%
Core Fixed	BarCap Agg	-0.1%	2.9%	3.2%	1.0%
Short Fixed	BarCap 1-3Yr	0.2%	1.3%	2.5%	0.5%
Long Fixed	BarCap LT G/C	-0.6%	5.4%	2.2%	1.7%
Corp Debt	BarCap Corp	0.2%	3.9%	2.7%	2.4%

Source: Bloomberg

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