

Gender aware

Time's up for inequality | UBS Asset Management

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In both business and in the media, gender is in the spotlight. With intense scrutiny on issues such as the gender pay-gap and the importance of diverse representation at all levels within companies and organizations, it is important for us as investors to evaluate the impact of gender related issues on investment decisions. Can gender diversity be a driver of added value?

In this paper, we look into the importance of gender diversity, how it might improve investor returns, and outline our engagement approach to unlocking this long-term value.

Why gender matters: The UBS view

For us, gender diversity is already a key priority and UBS Asset Management (UBS-AM) is well placed to meet the growing demand for products and solutions that can harness the value of gender.

In addition to products and solutions, as a firm, we're putting our principles into practice. We are a signatory to the Women in Finance Charter, we have an internal women's network for advancing the interests of female employees and we have implemented clear plans to close the current pay gap between male and female employees.



Having women in corporate leadership positions may enhance performance



Gender balanced boards in developed economies demonstrated lower levels of bribery, corruption and fraud



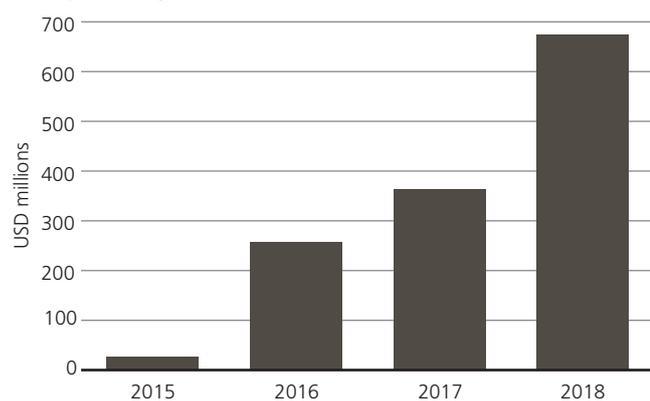
Increased female participation in senior leadership seems to be a marker of better managed organizations

Partnering for gender

At the end of 2017, UBS worked with Solactive and Equileap to launch the Equileap Global Gender Equality 100 Leaders, designed to track the leading companies in sustainability and gender. This index throws the spotlight on gender leaders, while also serving as a tool to help drive the agenda for change.

In order to track the index, and also make it accessible to investors, the UBS Gender Equality ETF was created through a collaboration with UBS Asset Management and UBS Global Wealth Management (GWM). Uniquely, a proportion of the management fee generated by the ETF is donated to the UBS Optimus Foundation in supporting the United Nations Sustainable Development Goal 5 – Empowering Women and Girls. One year on, flows into the fund have been strong.

Yearly Average Gender ETF Market AUM USD



Source: UBS Asset Management

The investment case for gender

Is female talent good for business?

In 2015, McKinsey estimated that USD 28 trillion, or 26%, could be added to annual global GDP in 2025 if full gender equality could be achieved, compared to the 'business as usual scenario'.¹ A year later, the Peterson Institute for International Economics revealed that having women in corporate leadership positions may enhance performance.²

On the flip side, companies ranking lowest for both gender and ethnic/cultural diversity (bottom quartile), were almost 30% less likely to achieve above-average profitability than all other companies surveyed.³

Can gender drive returns?

Various factors have been cited, to suggest that gender parity offers potential for outperformance. A recent study from the UBS GWM Chief Investment Office (CIO)⁴ explores

benefits possible with a more diverse workforce, including higher levels of collective intelligence and informational diversity – both factors can be positively related to group performance.

Another interesting observation revealed by the study is the tendency for more gender balanced boards to apply greater levels of oversight and monitoring. Further, an MSCI ESG report⁵ found that gender balanced boards in developed economies demonstrated lower levels of bribery, corruption and fraud.

These findings seem to corroborate the business case for gender diversity, but it is important to have data backed research. A regression analysis conducted by the UBS CIO examined the S&P 500 over a six-year period, to see if more gender-balanced companies outperformed the wider market. The study revealed that after accounting for company size and style, gender-balanced companies did in fact yield a more positive performance, something which held true across sectors.

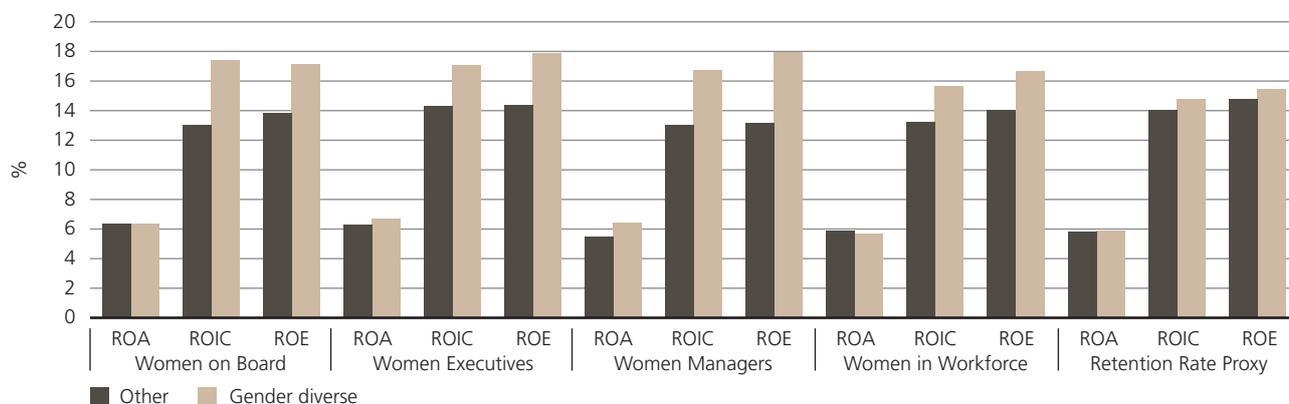
Equileap is a leading organization that leverages the power of investments, knowledge and donations to accelerate gender equality in the workplace, from boardrooms to the supply chain. It provides investors with data and insights on gender equality, assessing thousands of companies globally based on 19 criteria which are organized into four categories.

- Gender balance in leadership & workforce
- Equal compensation & work life balance
- Policies promoting gender equality and commitment
- Transparency & accountability.

The Equileap annual Report & Ranking presents the Top 200 companies globally, insights per country and sector, as well as key findings on gender equality. More information is available on www.equileap.org

Gender-diverse global companies exhibit higher profitability

Three-year average, in %



Note: based on FTSE Developed World companies. Gender-diverse companies were considered those where the diversity metric is better than average: >20% women on board and executive level, >30% women managers, 40-60% women in workforce, and >50% retention rate from manager to executive. Source: Thomson Reuters, UBS, as of December 2017. Note: ROA = return on assets; ROIC = return on invested capital; ROE = return on equity.

1 The Power of Parity: How Advancing Women's Equality Can Add \$12 Trillion to Global Growth, McKinsey Global Institute, September 2015

2 Marcus Noland, Tyler Moran, Barbara Kotschwar, Is Gender Diversity Profitable? Evidence from a Global Survey, Peterson Institute for International Economics, 2016.

3 Diversity Matters. McKinsey 2015

4 Laura Kane, Michelle Laliberte, Chief Investment Office Americas, UBS Wealth Management, Investing with a gender lens – update 11 October 2018

5 Linda-Eling Lee, Ric Marshall, Damion Rallis, Matt Moscardi, Women on Boards: Global Trends in Gender Diversity on Corporate Boards, MSCI, 2015.

However, it is important to note that while a number of studies link gender diversity to better company performance, strategic decision-making and improved company risk profiles, it remains difficult to establish a causal relationship. Still, several reports indicate that increased female participation in senior leadership seems to be a marker of better managed organizations.⁵

Which sectors are performing?

According to recent research from Morgan Stanley⁶, sectors with the highest average percentage of women in the workforce are financials, health-care, discretionary and staples. But the sectors rewarded the most by the market for gender diversity, as measured by annualized relative returns, are energy, technology, material, financials, utilities and health-care.

On the face of it, the financial sector is the most gender diverse – it has a 50/50 split of male/female employees⁷.

However, at an executive level, the sector ranks close to average for empowerment and pay parity. The technology sector on the other hand ranks poorly on gender representation even though it's a new and growing sector⁸. Interestingly though, companies within the sector tend to include a higher number of women in the C-suite and display better equality in pay relative to other sectors. High gender diverse tech firms also generate, on average, a 5.4% annualized relative return versus low gender diverse tech firms (the same metric averaged 1-2% across all sectors).

Which sectors are committing?

According to the latest Equileap report⁹, the top three sectors were communications, where 32% of those companies surveyed reached the Top 200 of Equileap's ranking, financials (27%) and utilities (21%).

For investors looking for potential opportunities, these findings could be a useful starting point in terms of thinking about gender as a potential marker of better performance.

5 Hoogendoorn, S., Oosterbeek, H., van Praag, M. (2011). The Impact of Gender Diversity on the Performance of Business Teams: Evidence from a Field Experiment. Tinbergen Institute Discussion Paper No. 11-074/3.
Woolley, A.W., Chabris, C. F., Pentland, A., Hashmi, N. and Malone, T. W., "Evidence for a collective intelligence factor in the performance of human groups," *Science*, 330, pp. 686–688.
Karen A. Jehn, Gregory B. Northcraft, Margaret A. Neale, "Why Differences Make a Difference: A Field Study of Diversity, Conflict, and Performance in Workgroups," *Administrative Science Quarterly*, Vol. 44, No. 4, 1999.
McKinsey, *Diversity Matters*, 2015

6 2016 Morgan Stanley Global Quantitative Research, Putting Gender diversity to work: better fundamentals, less volatility
7 2017 Morgan Stanley: Gender diversity: profile of the financial sector
8 2017 Morgan Stanley: gender diversity profile of the technology sector
9 Gender Equality Global Report and Ranking 2018, Equileap

Prioritizing gender diversity

Can we proactively improve companies?

Driving gender equality through shareholder engagement

At UBS-AM, we have selected gender diversity as a priority topic for our shareholder engagement program. In collaboration with UBS Global Wealth Management, we are undertaking discussions with portfolio companies who missed out on inclusion in the Gender Equality 100 Leaders Index, but are within striking distance. In these dialogues, we run through the evidence supporting the business case for gender equality, explain the metrics they are being assessed on, and help them map out a plan for improving their performance, with the goal of being included in the Gender Equality 100 Leaders Index the following year or two.

Engagement in Practice

We believe that effective company engagement is crucial to unlocking potential value. So, in structuring our engagement program around gender, we need to set clear targets that we aim to achieve, such as to

- Catalyze best practices and standards across sectors in the long run, and therefore the performance of the Global Gender Equality ETF.
- Improve gender diversity practices by companies not included in the Equileap index but well positioned to be included in the future.
- Collect feedback from the companies on obstacles to take further action and move from policy commitments to implementation.
- Increase corporate disclosure on current policies and practices which would benefit better investment and proxy voting decisions

Our engagement roadmap

Our engagement plan begins with developing a focus list of 20 companies taking into consideration their position in the Equileap database, UBS-AM financial exposure and our assessment of gender equality performance on financial valuations.

In conjunction with other engagement efforts planned by UBS-AM, we will engage with companies through conference calls/in person meetings with IR, HR and sustainability experts, and when possible, with our equity PMs or analysts. The meetings will be an opportunity to discuss the results of our research, encourage further actions, and identify objectives for future dialogue.

The success of this engagement initiative will be measured by achievement of our defined engagement goals and eventual inclusion of companies in the Equileap index in the future. Our proxy voting policy includes provisions on gender diversity at the board level around the world. In 2020, proxy voting decisions on Board director and nomination committee members will be informed by the success/failure of the engagement dialogue too.

Conclusion

As the focus on gender leadership grows ever more intense and regulatory pressures increase, we expect gender to become an increasingly important topic for investors. At UBS-AM we strive not only to be a leader in terms of offering investment products and solutions which meet our clients' needs and demands, but also to work with investee companies to help them develop best practices in relation to gender equality and empowerment, and thereby unlock long-term value.

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