Investors Steering Into The Gender Gap

A growing body of compelling investment research suggests a positive correlation between the presence of women on corporate boards and/or in senior management and superior corporate performance. Some of the findings in the studies are particularly striking:

• From 2010 to 2016, companies with at least one female board director generated an excess return on equity of 3.5% per annum according to Credit Suisse.¹

• MSCI reported in 2015 that companies in the MSCI World Index with strong female leadership generated a return on equity of 10.1% per year vs. 7.4% for those without.²

• MSCI research on US companies over the five-year period of 2011–2016 found that those that began the period with at least three women on the board experienced median gains in Return on Equity (ROE) of 10% and Earnings Per Share (EPS) of 37% — while companies that began the period with no female directors experienced median changes of -1% in ROE and -8% in EPS.³

• According to a January 2017 report by The Conference Board, companies with boards that comprise women had significantly lower incidence of corporate fraud, corruption and governance issues than those that do not. The report suggests that the reason for this is the outside perspectives brought into the boardroom by adding women to the board.⁴

As part of our review of board gender diversity, State Street Global Advisors analyzed the level of gender diversity in three key markets — Australia, the UK and the US. Among the findings of this study:

• Despite the declared efforts of many large-cap companies to include women on their boards, 4% of the companies listed on the Australian Securities Exchange 100 and 2% of S&P 500 companies still did not have any women on their boards.⁵

• 16% of Australian Securities Exchange 100 companies, 11% of Financial Times Stock Exchange 100 companies and 24% of S&P 500 companies did not meet a threshold of having at least 15% of their boards comprised of women.⁶

• Women held less than 20% of board seats at S&P 500 companies — and of the companies that had female board representation, almost one quarter had only one female board member.⁷

• Female board members throughout Europe held only 4% of board chairs, 22% of remuneration chairs and 8% of nominating chairs.⁸

Every asset manager has their own distinct approach toward investment management and brings their own values to bear on how they influence the companies in their portfolio. At State Street Global Advisors, we’ve sought to take an aggressive stance on ESG issues including diversity and talent development, board composition and governance and climate change because they may represent both the greatest risks to capital investment and the greatest opportunities for long-term value creation.

As one of the largest asset managers in the world, with $2.81 trillion in assets under management as of September 30, 2018, our Asset Stewardship and ESG framework seeks to leverage our size, global scale and investments in companies, to actively engage with such companies to promote the long-term value of our clients’ investments. In every engagement, we look at board composition to assess a company’s probable long-term performance, irrespective of sector, market cap or geography.⁹

In the first quarter of 2017, State Street Global Advisors began to call on the more than 3,500 companies we invest in on behalf of clients to take concrete steps to increase gender diversity on their boards. We have directly engaged with 476 companies who had no women on their boards.

In 2017, we used our proxy voting power to effect change by voting against 512 companies for failing to take action regarding their board gender diversity. In the first half of 2018, we voted against 581 companies.

Over this time, more than 300 companies have added a female director and another 28 have committed to do so.¹⁰ In the US alone, momentum continues to build, as a total of...
The Implications for Investors of Low Female Board Composition

Research into gender differences show that men and women have different risk tolerances, weigh criteria differently when making decisions and define whether an investment is successful using very different measures — all of which helps to create a healthy system of checks and balances on boards that comprise both genders. Research suggests that the inclusion of female board members also signals the sincerity of corporations’ commitment to increase gender diversity throughout the entire organization and provide career progression for women.12

The factors impeding equal representation of women on corporate boards and in senior management are manifold and institutionally entrenched. The assumptions and biases — both conscious and unconscious — about women’s work choices, strengths and preferences were shaped in a very different era, when women had few options for childcare and much lower levels of educational attainment than men, placing career trajectories beyond their reach.13 Many accepted support roles and chose jobs in lower-paying fields that would allow them to get out the door in time to get to their second job: parent.

As evidenced by study after study, many companies have failed to address these behavioral biases in their culture, especially around pay and promotion gaps and hiring practices. Furthermore, many human resources policies still do not adequately accommodate the needs of women, who shoulder a disproportionate share of childbearing duties. And their salaries, which still lag men by 20 cents on the dollar,14 often place women with families in the unenviable position of having to weigh the costs of childcare to calculate if they can afford to work. This holds especially true early on in the formative years of their careers.

According to a recent joint study from Lean In and McKinsey & Co., the promotion gap starts early in their careers — when, for every 100 women given their first promotion, 130 men are given theirs — a pattern that replicates itself at every point in their careers, when they are 15% more likely to be passed over by a man.15 The result? Women in the US comprised a scant 17% percent of the executive suite, from which board membership is often culled.16

In addition to board nomination processes, which haven’t been suitably broadened to factor in the experience and expertise of women, board tenure is also an issue when many board members’ tenure is longer than that of the CEO.17 Simply put, boards that don’t turnover can’t diversify their ranks and apply new, relevant and fresh insight that may improve performance over the long haul. This matters: boards should be accountable to shareholders, not management.

The Rise of the Gender Lens Investor — and its Intended Impact

A new breed of impact investors, often referred to as Gender Lens Investors (GLIs), aims to redress this imbalance, drive companies to deploy corporate policies and initiatives that solve for workplace inequities and demonstrably improve the lives of women while simultaneously enhancing shareholder returns.

GLIs could prove critical in creating a level playing field for the workplace of the future. Entrenched mindsets and biases can take decades to change — and they change most when the people who hold them come to understand how inaccurate they are experientially. If the efforts of GLIs are successful, companies a decade from now will have experienced measurable, improved operational performance and higher earnings. Old biases will be replaced with new truths. To apply an old but relevant chestnut, many men become feminists upon the birth of a daughter. Companies will place a higher value on women’s contributions if they see increased positive performance as a result of increased female leadership.

In the Fall 2014 Stanford Social Innovation Review on “The Rise of Gender Capitalism,” Sarah Kaplan and Jackie VanderBrug have defined gender lens investing as “the use of capital to deliver financial returns and improve the lives of women and girls and their communities.” And Criterion Institute, an activist think tank, provides an excellent summation of the “gender lenses” through which investors can determine how to invest their capital.18

• Increasing access to capital for women This means not only access to equity, loans, and financial training, but also consideration of larger structural barriers to access such as land ownership, power dynamics between women borrowers and male bankers and loan officers, and even implicit societal biases.
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• **Workplace equity** This includes increasing the number of women on boards and in senior leadership positions to alter the gender landscape at the top, as well as policies that benefit women more broadly, such as wage equity and paid maternity leave. This category also applies to issues of supply chain management, in jobs where women tend to hold the lowest paying, most vulnerable, and sometimes most dangerous positions.

• **Products and services that benefit women** This encompasses a wide range of business models selling products that range from reproductive/maternal health innovations to daycare services, from water wheels to money management training. In general, investments revealed through this lens respond to a need, whether biologically or socially driven, that is particularly unique to female consumers.

It’s important to note that the use of the term gender rather than female to describe this investment approach is purposeful. The positive impact of improving the lives and future prospects of women and girls through greater access to education, capital, equal pay, and quality healthcare extend to all society. The McKinsey Global Institute estimates that in a “full potential” scenario in which women play an identical role in labor markets to that of men, as much as $28 trillion, or 26%, could be added to global annual GDP by 2025.19

The universe of GLIs includes individual investors, mandate-driven investment managers including early stage venture capital firms, private equity funds, investors in social impact bonds, pooled funds and philanthropic foundations — many of which have extensive experience in sustainability-driven investing.

**Gender Lens Investing at Scale: the SPDR SSGA Gender Diversity Index ETF (SHE)**

In 2016, State Street Global Advisors launched the SPDR SSGA Gender Diversity Index ETF (ticker symbol: SHE). SHE seeks to track the performance of the SSGA Gender Diversity Index, which is designed to comprise listed US large capitalization companies with the highest levels within their sectors of gender diversity on their boards of directors and in their senior leadership. SSGA was inspired to develop the Index by the California State Teachers’ Retirement System’s (CalSTRS) efforts to move the needle on gender diversity in corporate America, especially for women in leadership positions. SHE is designed to provide an opportunity for all investors to deploy their capital at scale and seek a return on gender diversity.

The SPDR SSGA Gender Diversity Index ETF and its underlying SSGA Gender Diversity Index are designed to address the gender gap in corporate America by identifying companies that have been able to attract and retain a gender diverse senior leadership relative to other companies in their sectors and apply the investment thesis that gender diversity leads to more thought and perspectives, which leads to better decision-making. And those better decisions may translate into stronger long-term corporate performance, profitability and — ultimately — shareholder returns.

While SHE has the potential to effect immediate change, State Street Global Advisors also launched SHE Impacts, a donor-advised fund administered by National Philanthropic Trust, a 501(c)(3) public charity, that contributes a portion of the proceeds generated by SHE to mitigate the gender biases that affect girls early in life.

SHE Impacts provides grants to organizations that prepare and encourage girls from kindergarten through grade 12 to take their place in higher-earning industries where women have low representation today, such as STEM (Science, Technology Engineering, and Math) industries. SHE Impacts also supports programs that promote gender diverse leadership in the workplace.

SHE Impacts’ mission is supported at the highest levels of State Street Global Advisors ensuring both its scale and sustainability. Each quarter, a group of State Street Global Advisors professionals gathers to evaluate a wide range of worthy charities to receive support. To ensure our gifts have the maximum impact, we apply tremendous rigor and insight to researching charitable organizations and recommending grants and focus on a handful of carefully selected charities to concentrate our impact.

**Inclusive Economic Practices May Lead to Increased Prosperity for All**

The extent of work that has yet to be done to achieve gender equality and accurately express women’s contributions to society is formidable. As with all groups that face disparities, true equality is most likely to be achieved through financial equality. Companies should be forces for positive change — and investors must hold them accountable for achieving it.

Gender Lens Investors have acquired considerable influence and expressed their collective voice with millions in invested capital in just the public equity space alone in just a few short years, and if the investor class continues to grow at its current rate, the effect on driving corporate change could be staggering in the decades ahead.
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MSCI, Women on Boards: Global Trends in Gender Diversity. November 2015. A company is considered to have strong female leadership if the company’s board has three or more women or if it’s percentage of women on the board is above it’s country average.


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Spencer Stuart, Spencer Stuart Board Index: A Perspective on U.S. Boards, 2016.

Criterion Institute, The State of the Field of Gender Investing, October 2015.

About State Street Global Advisors
For four decades, State Street Global Advisors has served the world’s governments, institutions and financial advisors. With a rigorous, risk-aware approach built on research, analysis and market-tested experience, we build from a breadth of active and index strategies to create cost-effective solutions. As stewards, we help portfolio companies see that what is fair for people and sustainable for the planet can deliver long-term performance. And, as pioneers in index, ETF, and ESG investing, we are always inventing new ways to invest. As a result, we have become the world’s third largest asset manager with US $2.81 trillion* under our care.

*AUM reflects approximately $28.32 billion (as of September 30, 2018), with respect to which State Street Global Advisors Funds Distributors, LLC (SSGA FD) serves as marketing agent; SSGA FD and State Street Global Advisors are affiliated.

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State Street Global Advisors
One Iron Street, Boston, MA 02210.
T: +1 866 787 2257.

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Gender diversity risk: The returns on a portfolio of securities that excludes companies that are not gender diverse may trail the returns on a portfolio of securities that includes companies that are not gender diverse.

Before investing, consider the funds’ investment objectives, risks, charges and expenses. To obtain a prospectus or summary prospectus which contains this and other information, call 1-866-787-2257, download a prospectus or summary prospectus now, or talk to your financial advisor. Read it carefully before investing.

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