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# Gender Diversity Impact: Assessing Gender Diversity Impact at the Portfolio Level

## Neuberger Berman portfolio managers Ingrid Dyott and Sajjad Ladiwala on the value of gender diversity in the workplace.

Nearly 47% of U.S. workers are women, 70% of mothers with children under 18 participate in the labor force with over 75% working full-time.[1] Women also own close to 10 million businesses accounting for $1.4 trillion in receipts.[2] Yet women still face barriers from entering and staying in the workforce such as the lack of flexible work arrangements and unequal pay, among others. These barriers are universal and reducing them would have far-reaching impacts on improving economic development worldwide. On a global scale, if women's participation in the global economy were equal to men's, the global annual GDP would get a $28 trillion boost in 2025.[3]

Meanwhile, the research behind the benefits of gender diversity at the corporate level is also compelling as numerous studies by Mercer, Credit Suisse and others have found.[3] While correlation does not necessarily imply causation, we recognize the overall business case for diversity. McKinsey research finds companies ranking in the top quartile for gender diversity are more likely to deliver financial returns above their national industry medians, suggesting a potential investment opportunity for those willing to consider these benefits in conjunction with their traditional security analysis.[4]

As we discuss in this paper, the Neuberger Berman Sustainable Equity ("NB SE") team's overall investment framework focuses on identifying high-quality companies positioned for growth that are well managed and give thoughtful consideration to ESG issues that are most relevant to their businesses. The team believes that thoughtful managements can enhance firm value by minimizing a broad range of business risks while building on opportunities that can increase their competitiveness over the short and long term. Within this context, the NB SE strategy strives to invest in companies that appreciate the value of gender diversity in the workplace, an attitude that manifests itself in such behaviors as appointing women to their boards of directors; promoting women into senior positions; innovative hiring, training or other programs for women; offering diversity training and support groups for employees; and promoting diversity throughout their supply chains.

## NB SE and ESG Integration

Investors focused on impact investing seek to invest in companies that contribute positively to outcomes across a range of environmental, social and governance (ESG) issues, from local concerns such as community impact to more universal issues such as diversity and climate change.

The NB SE team believes that responsibility is a hallmark of quality. This belief underlies the investment process, which integrates business, financial, investment and ESG criteria. The NB SE team measures an investment's impact by assessing the relevant ESG factors of a company's business, including the net benefits its business can have on the broader environment and community. First we look to identify the source and sustainability of a company's competitive advantage by understanding its business model, the dynamics of the industry in which it operates, management's track record, and its approach to corporate governance and shareholder disclosure. From there, we can drill down to the company's performance and trajectory in terms of ESG factors. We examine company management and its commitment and leadership on sustainability issues, as well as what policies and incentives are in place to encourage good behaviors. We additionally look at the products and services offered, and the degree to which these provide beneficial impacts to customers. Companies can further support their cause by disclosing their ESG activities and associated impacts. And we further engage companies in areas where we feel additional transparency could be beneficial.

We believe our integrated business, financial and ESG analysis leads to a more granular understanding of the business and enables us to better identify good quality, responsible managements that stand to have a beneficial impact within their community and across stakeholders—and our portfolio.

### Sustainable Equity ESG Process Overview

| Management, Governance Oversight | Company Operations and Programs | Products and Services Characteristics | Disclosure and Reporting | PORTFOLIO |
|---|---|---|---|---|
| • Board oversight<br>• Management commitment and leadership<br>• Policies in place<br>• Issue relevance to business strategy | • What programs and initiatives does the company have in place to internally promote and manage diversity, climate change, environmental issues, human rights, supply chain, etc.?<br>• Sustainable supply chain management programs | • What products and services does the company offer?<br>• What percentage of products and services enable customer impact?<br>• Product profile; integrity, reliability | • Evidence through the disclosure of key metrics and/or case studies<br>• Measurable outcomes<br>• Company engagement | |

## NB SE Strategy Diversity Impact

As of December 31, 2019, 100% of the NB SE strategy portfolio holdings by weight had at least one or more women on their board. About 78% had at least one woman in C-suite/board chair and/or executive management with P&L responsibilities. The NB SE team seeks to invest in companies that have diverse boards. We encourage companies to consider a broad and diverse pool of director candidates that can bolster the overall diversity of their boards. The NB SE team believes that a diverse board of directors is more likely to have a robust forum for discussions relating to governance that can allow the company to navigate the many and varying opportunities and challenges facing businesses globally.

## Measuring the Impact of Gender Diversity

We consider a number of factors when reviewing gender diversity. In general, we seek to invest in companies with:

- Women on the board of directors
- Women in the C-suite, as board chairs and/or in executive management with P&L responsibility
- Gender pay gap process and reporting
- Established diversity programs, policies and commitments
- Workplace practices in support of women
- Established supply-chain diversity programs
- Products and services that benefit women

Below we discuss the importance of each of these factors and report on how they stack up in the 38-company equity portfolio holdings of our NB SE strategy as of December 31, 2019. Keep in mind, the Equal Opportunity Employment Commission (EEOC) does track some important diversity statistics, but companies have historically not made this information publicly available.

**Women on the board of directors or in leadership.** It is widely recognized that companies with women in leadership positions often perform better than those companies who do not. And according to a recent report by Catalyst, a nonprofit organization focused on workplace inclusion, gender-diverse boards are also associated with higher scores across four dimensions of "corporate social performance": community, customers, environment and supply chain.

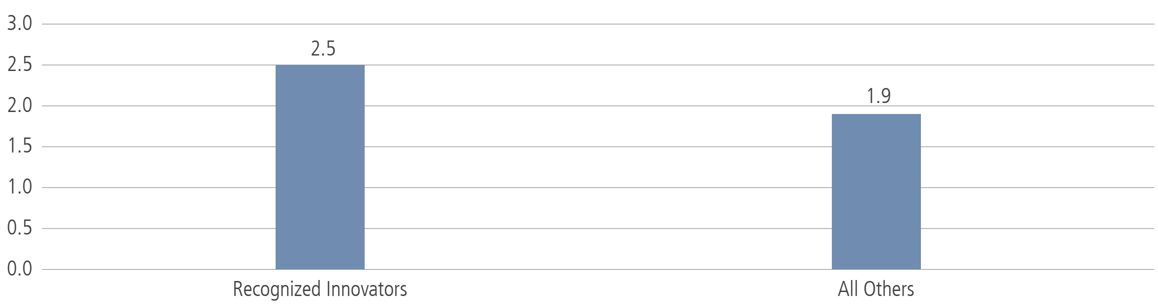
Despite this, only 26% of the board seats of S&P 500 companies were held by women at the end of 2019, making slow but steady progress from 19.2% at the end of 2015.[4]

The Thirty Percent Coalition, an organization advocating for the goal of women to hold 30% or more of board seats across public companies, estimates that this puts women on the path to 30% female directorship projected for 2027 and at the current pace, a 50/50 gender split among global directors might be reached by 2044.[5]

Given that women comprise about half of the total U.S. workforce and management positions and are responsible for the majority of consumer spending, we believe the number of women on boards—and throughout the executive suite—should increase to better reflect women's role in the economy.

MSCI examined constituents of the MSCI ACWI Index[6] that had been recognized as innovators on one or more annual lists produced by Forbes, Fast Company, MIT Sloan and the Boston Consulting Group between 2015 and 2018. All told, there were 202 index constituents in 42 industries over three years, with the majority (161) clustered in 17 industries, such as software and services, pharmaceuticals and automobile manufacturers.[7] Strong female presence on the board was a defining feature of these companies compared to others in their industries. They were also about 1.5 times as likely to have quantitative diversity targets for recruitment and/or senior management dedicated to overseeing diversity and inclusion initiatives.[7] While it is not clear what's cause and effect, companies lacking in female board representation often find that they are lagging their peers.[8]

**INNOVATIVE COMPANIES HAVE MORE FEMALE DIRECTORS**




As of year-end 2017, women hold just under a quarter of senior roles in the Americas and only about 6% of CEO positions of *Fortune* 500 companies.[9] Promoting women into roles with P&L responsibilities provides further opportunities for career growth and a path into senior management and executive level roles.

Companies have however made progress adding more women to senior-level roles and the C-suite. Since 2015, the representation of women in the C-suite has increased from 17% to 21%.[10] Still, women remain significantly underrepresented as barriers persist further down the organizational structure when it comes to manager hires and promotions.

A McKinsey report found that for every 100 men promoted and hired to manager, only 72 women are promoted and hired, resulting in more women getting stuck at the entry level and fewer women becoming managers and holding only 38% of manager-level positions.[11] The numbers are even worse for women of color. From the investor perspective, we believe companies should have clearer and intentional efforts that put all women on a clear merit-based path toward upward mobility. This is often the focus of many of our company engagements on the topic.

**Gender Pay Gap Equity**. Companies that proactively manage diversity issues may benefit from positive reputational effects and potential hiring and retention advantages. Women make up nearly half of the U.S. labor force as per Department of Labor, but on average, a woman earns 80.5 cents for every dollar a man earns, according to data from the U.S. Census Bureau.[12] Increasingly, companies competing for talent in a tight labor market are seeking to close the gender pay gap in order to attract a more diverse pool of candidates. Gender diversity in the workplace can produce greater creativity, innovation and even engagement. Companies with higher levels of gender diversity and with HR policies and practices that focus on gender diversity are linked to lower employee turnover.[13] Gender pay equity demonstrates commitment to a meritocracy which appeals to all employees regardless of gender.

Certain proactive companies, notably some first movers in the technology and financial sectors where the battle for talent is most acute, have begun to conduct gender pay gap analyses internally and to publicly disclose the results. These companies typically report on equal pay, meaning that all things being equal, looking at like-for-like role and experience, employees are not being paid differently based on gender. This number however, does not provide any further information on female representation in senior-level or executive management positons.

All companies with U.K. based employees must also comply with the local gender pay gap regulation, which requires companies with 250 or more employees to disclose their median gender pay gap.[14] This has led to an increase in awareness, disclosure and dialog on diversity. The limitation for this type of gender pay gap reporting is that it does not attempt to uncover any unequal pay for like-for-like jobs (contrary to the above).

We prioritized the gender pay gap as a key engagement priority for 2018, where we could look at like-for-like jobs and determine equal pay was the key metric we focused on. We separately asked for more information on senior management, executive roles, etc. to gain more insight into how the organization was addressing female representation at the upper levels. We asked management at our portfolio holdings about the systems they have in place to assess gender pay equity and the methods at their disposal to rectify gender pay gaps. We believe best practices include:

- Public disclosure of practices and results that can be monitored by stakeholders
- Third-party oversight to ensure the integrity of the analysis
- Global reviews incorporating like-for-like job pay equity
- Mechanisms for hiring and promoting women to upper levels of management with targets over time

### NB SE Strategy Diversity Impact

As of December 31, 2019, nearly 75% of portfolio holdings, as of year-end 2019, have either public or internal processes to identify and address pay disparities within their organization.

Although U.K. regulations require companies to disclose their mean gender pay gap analysis for U.K.-based employees, these results often do not include the global workforce or compare like-for-like positions. In NB's view, due to tight labor market conditions, the U.S. technology sector is an early mover in gender pay gap analysis. Public disclosure has not kept up in other industries.

Companies have articulated gender pay gap analysis as a very helpful employee retention tool.

**Diversity programs, policies and commitments.** Companies that proactively manage diversity issues may benefit from positive reputational effects and potential hiring and retention advantages. Established diversity programs are characterized by a variety of conditions that promote a culture of diversity and inclusion across the company, including a high-level commitment from management, recruiting and training programs, employee networking groups and mentorship programs. According to Sustainalytics, a global sustainability research firm, 52% of the 1,012 U.S. firms they sampled do not disclose any diversity programs, with initiatives particularly lacking in the energy, information technology and health care sectors.[15] A study conducted by Mercer found that leadership needs to be engaged in promoting and managing diversity, and that organizations with diversity programs and initiatives have more women at the top.[16] Companies that are proactively recruiting and retaining women and minorities are fostering an inclusive workplace, improving their right to operate and enhancing their competitive advantage.

The wage gap is perhaps the most bedeviling issue within workplace diversity. It has been well documented that women earn less than men across industries; according to the U.S. Census Bureau, women in the U.S. earn approximately 79 cents for every dollar men earn for comparable work as of 2019,[17] a disparity that has not improved significantly over the last decade. While we know this has been a persistent issue across and within industries, lack of transparency and disclosure makes the issue difficult to address. Many businesses, recognizing that this could be detrimental to talent recruitment and retention, have begun to conduct internal gender pay gap analysis and implement policies to correct any disparities.

### NB SE Strategy Diversity

As of December 31, 2019, approximately 94% of our portfolio holdings by weight had established diversity programs and initiatives, including employee networking groups, mentorship programs and recruiting practices. The NB SE team seeks to invest in companies with internal mechanisms in place to recruit, train, mentor and promote a diverse workforce, as well as to proactively address any pay gaps within their workforce; we believe these companies are better prepared to respond to the workplace issues relevant to employees and thus keep them motivated and engaged. There is no single solution when it comes to promoting a culture of diversity or building a successful diversity program, but we believe having strong support and commitment from management is critical. The NB SE team, in its engagement with companies, strives for disclosure since it allows us and other investors to evaluate companies and the intent/actions/outcomes of management’s diversity initiatives.

**Supply chain diversity programs.** Supply-chain programs typically are put in place to ensure that a company includes diverse groups in the procurement of goods and services. For example, some companies commit to sourcing from businesses that are at least 51% controlled and operated by one or more members of a diverse group and/or that are certified minority- and women-owned business enterprises (MWBEs). Not only do such programs provide the opportunity for diverse businesses to compete, they also help corporations to remain competitive as they tap into a growing and diverse supplier base. Beyond procurement programs, sensitive supply-chain management can result in the adoption of best practices that may extend opportunities to working women across global supply chains; this is particularly true within the garment and agriculture industries, in which women comprise the majority of the workforce.

**NEUBERGER BERMAN SRI IMPACT SCORECARD: GENDER DIVERSITY**

| Criteria: Companies with… | Percentage of Portfolio by Weight Meeting Criteria |
|---|---|
| At least one woman on Board of Directors | 100% |
| At least two women on Board of Directors | 92% |
| Women in C-suite/Board Chair and/or Executive Management with P&L responsibility | 78% |
| Established diversity programs | 94% |
| Established supply-chain programs | 72% |
| Products and services that directly benefit women | 27% |

Representative NB Sustainable Equity strategy information is as of December 31, 2019.

### NB SE Strategy Diversity Impact

As of December 31, 2019, approximately 72% of our portfolio holdings by weight had implemented supplier diversity programs to benefit women entrepreneurs and/or promote workplace practices benefitting women throughout the supply chain. The NB SE team encourages companies to implement and monitor best labor practices throughout their supply chains that can have beneficial impacts in the workplace. We believe a reliable supply chain is an essential characteristic of a high-quality company.

**Products and services that benefit women.** We also take into consideration the beneficial impacts of a company's products and services and how they can positively impact women and female entrepreneurs. By the year 2028, it is estimated that women will control close to 75% of discretionary spending worldwide. As of 2013, women already owned about a third of all businesses in the world.[18] Whether it is health care products that can have a profound effect on women's health and wellness or brands that are committed to environmental and social causes, companies can design products and services to meet market demand in these areas. The NB Sustainable Equity team seeks to invest in companies with products/services that have a robust and sustainable customer value proposition that can meet unmet needs globally.

### NB SE Strategy Diversity Impact

As of December 31, 2019, approximately 27% of our portfolio holdings by weight generated revenue from products and services that directly benefit women (for example, women's oncology treatment, workforce training, etc.).

NB SE Strategy Diversity Impact: As of December 31, 2019, approximately 27% of our portfolio holdings by weight generated revenue from products and services that directly benefit women (for example, developing drugs for women's oncology treatment, workforce training, etc.).

## Engagement

As long-term shareholders, the NB SE team actively engages management teams on issues material to their respective businesses. Over the last several years, for example, the team has engaged with several of its portfolio holdings where it felt that management could improve the diversity of its board of directors. All of our portfolio companies now have at least one woman on their boards and a commitment to diversity.

## Conclusion

For more than two decades, the NB SE team has evaluated the impact of a company's environmental and social criteria and its impact on its bottom line. We believe that company managements with proactive leadership strategies in place to identify, monitor and manage related ESG risks and opportunities have the potential to be industry leaders with sustainable competitive advantages.

As research has shown, a commitment to diversity can enhance a company's ability to attract and retain a productive workforce.

In addition, in our view, as customers and suppliers become more diverse, having a workforce that reflects this diversity can lead to new business opportunities.

### We Believe Key Questions in Evaluating a Company's Commitment to Diversity Include (But Are Not Limited to):

- What is the business model and does the customer value proposition have a gender/diversity implication?
- What is the corporate culture and how are employees incentivized?
- Has management taken a leadership role on diversity?
- What programs and initiatives are in place to attract and retain a diverse workforce?
- Is the company transparent about its diversity-related data? What diversity metrics does it disclose?
- What is the prevalence of women in leadership positions?
- How does the company compare to its industry peers in terms of diversity metrics?

## Social Guidelines Related to Employment Practices and Gender Diversity

In addition to the overall investment evaluation framework, the Sustainable Equity strategy complies with the following guidelines as it relates to Employment and Workplace practices and Diversity:

**Diversity:**

The strategy strives to invest in companies that the SE team believes are leaders in promoting diversity in the workplace. Among other factors, it will look for companies that:

- Have implemented innovative hiring, training or other programs for women, people of color and/or the disabled, or otherwise have a superior reputation in the area of diversity
- Promote women and people of color into senior line positions
- Appoint women and people of color to their boards of directors
- Offer diversity training and support groups and
- Purchase goods and services from women- and minority-owned firms

The strategy attempts to avoid companies with recent major discrimination lawsuits related to gender, race, disability or sexual orientation. In general, the SE team does not buy companies that:

- Are currently involved in unsettled major class action discrimination lawsuits
- Are currently involved in unsettled major discrimination lawsuits involving the U.S. Department of Justice or the EEOC (Equal Employment Opportunity Commission) or
- Have exceptional historical patterns of discriminatory practices

Although the team views companies involved in non-class action discrimination lawsuits and/or lawsuits that have been settled or ruled upon with some concern, it may buy or hold such companies. These types of lawsuits will be given particular weight if a company does not have a strong record of promoting diversity in the workplace.

While the strategy encourages companies to have diverse boards of directors and senior management, the absence of women and minorities in these positions does not warrant a company's exclusion from the portfolio.

**Employment and Workplace Practices:**

The Sustainable Equity team endeavors to invest in companies whose employment and workplace practices are considered progressive. Among other things, the SE team will look for companies that:

- Offer benefits such as maternity leave that exceeds the 12 unpaid weeks mandated by the federal government, paid maternity leave, paternity leave, subsidized child and elder care (particularly for lower-paid staff), flexible spending accounts with dependent care options, flextime or job-sharing arrangements, phase back for new mothers, adoption assistance, a full-time work/family benefits manager, and/or health and other benefits for same-sex domestic partners of its employees
- Have taken extraordinary steps to treat their unionized workforces fairly, and
- Have exceptional workplace safety records, particularly Occupational Safety and Health Administration Star certification for a substantial number of its facilities and/or a marked decrease in their lost-time accidents and workers compensation insurance rates

The strategy will seek to avoid investing in companies that:

- Have demonstrated a blatant disregard for worker safety or
- Have historically had poor relations with their unionized workforces, including involvement in unfair labor practices, union-busting and denying employees the right to organize.

Although the team is deeply concerned about the labor practices of companies with international operations, it may buy or hold companies that are currently or have been involved in related controversies. The SE team recognizes that it is often difficult to obtain accurate and consistent information in this area; however, it will seek to include companies that are complying with or exceeding International Labor Organization (ILO) standards.

## RISK CONSIDERATIONS:

**Market Risk:** The risk of a change in the value of a position as a result of underlying market factors, including among other things, the overall performance of companies and the market perception of the global economy.

**Liquidity Risk:** The risk that the portfolio may be unable to sell an investment readily at its fair market value. In extreme market conditions this can affect the portfolio's ability to meet redemption requests upon demand.

**Counterparty Risk:** The risk that a counterparty will not fulfil its payment obligation for a trade, contract or other transaction on the due date.

**Operational Risk:** The risk of direct or indirect loss resulting from inadequate or failed processes, people and systems, including those relating to the safekeeping of assets or from external events.

**Currency Risk:** Investments in a currency other than the base currency of the portfolio are exposed to currency risk. Fluctuations in exchange rates may affect the return on investment. If the currency of the portfolio is different from your local currency, then you should be aware that due to exchange rate fluctuations the performance may increase or decrease if converted into your local currency.

**Sustainable Risk:** The portfolio may focus on investments in companies that relate to certain sustainable development themes and demonstrate adherence to environmental, social and corporate governance practices. This may mean the universe of securities from which the portfolio can invest in may be smaller than that of other strategies and may underperform the market as a result.

[1] U.S. DOL https://blog.dol.gov/2017/03/01/12-stats-about-working-women.
[2] U.S. DOL https://blog.dol.gov/2017/03/01/12-stats-about-working-women.
[3] Catalyst, *The Ripple Effect: Working Women Grow Economies* (August 25, 2017).
[4] Bloomberg.
[5] MSCI Women on boards 2019 Progress Report Olga Emelianova, Christina Milhomem December 2019 https://www.30percentcoalition.org/images/PDF/NON_Coalitions_Documents/msciReport2019.pdf.
[6] The MSCI All Cap Weighted Index (ACWI) is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world.
[7] MSCI ESG https://www.msci.com/www/blog-posts/what-innovative-companies-and/01281290345.
[8] MSCI ESG https://www.msci.com/www/blog-posts/what-innovative-companies-and/01281290345.
[9] Catalyst https://www.catalyst.org/research/women-in-the-workforce-global/.
[10] McKinsey Women in the Workplace report, 2019.
[11] McKinsey Women in the Workplace report, 2019.
[12] Source: https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_17_1YR_S2412&prodType=table.
[13] Source: Muhammad Ali, Isabel Metz, and Carol T. Kulik, "Retaining a Diverse Workforce: The Impact of Gender-Focused Human Resource Management," Human Resource Management Journal, vol. 25, no. 4 (2015): p. 580-599.
[14] From 2017, any organization that has 250 or more employees in the U.K. must publish and report specific figures about their gender pay gap. The gender pay gap is the difference between the average earnings of men and women, expressed relative to men's earnings. For example, 'women earn 15% less than men per hour'.
[15] "Narrowing the US Gender Pay Gap," Sustainalytics, March 2016.
[16] "When Women Thrive, Businesses Thrive," Mercer, 2014.
[17] Bureau of Labor Statistics https://www.cnbc.com/2019/04/02/heres-how-much-men-and-women-earn-at-every-age.html.
[18] "Women: the next emerging market," E&Y, 2013.



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