

The importance of gender diversity

The business case for gender diversity is clear. Improving their gender balance allows companies to benefit from harnessing all available talent, potentially improving share price performance. LGIM has shown a clear commitment to this issue in our ambitious targets for better representation of women at companies.

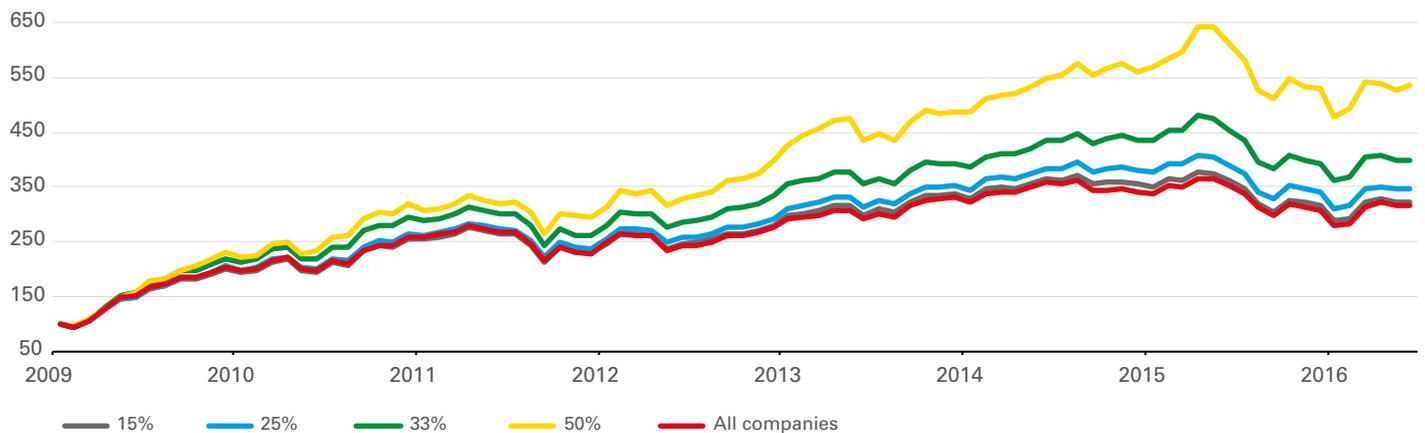


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The most successful companies evolve. The average lifespan of a company in the S&P 500, a US stock market index, used to be 33 years in 1964; by 2027 it's forecast to shrink to just 12¹. A company's success or failure is largely determined by the quality of its leaders' decision making and is why the make-up of leadership teams

is crucial. To make the best decisions, we believe that this can only come from a group with a diverse set of views. A group of people who are all of the same gender simply cannot be the best forum for debate — the key is cognitive diversity.

Figure 1. Share price performance for baskets of companies with different proportions of female participation in senior management



Source: Bloomberg, Credit Suisse Research, "The CS Gender 3000: The Reward for Change" 2016

1. Source: Innosight, Corporate Longevity Briefing (2018)



Fostering inclusive workplaces can play an important role in addressing some of the most important business issues. These include increasing innovation, attracting and retaining talent, enhancing reputation and brand, and generating higher returns, according to some research².

Many studies conducted in recent years have shown that companies with higher levels of gender diversity perform better relative to the wider stock market. For example, the Credit Suisse Research Institute in 2016 compared the performance of over 3000 companies across the world and found that those with higher levels of female participation in senior management performed better over the past decade.

Greater diversity can also create a virtuous circle – a company with a diverse board and workforce will likely attract more diverse talent, in our own view, thereby increasing its brand and reputation. As more employees look at the culture of an organisation they consider joining, a reputation for strong diversity can be a benefit for attracting the top talent.

HOW WE MAKE A DIFFERENCE

Legal & General Investment Management (LGIM) has been promoting the benefits of diversity with the companies in which we invest since the government-

backed Davies Report brought this topic to the fore in 2011. We have never believed in establishing quotas as this can result in companies performing a box-ticking exercise. Instead, we have been advocating for companies to set targets for gender diversity that are right for them at board level and below. Companies should not consider diversity an ‘add-on’ but as part of their core business strategy and culture that can improve business performance. As many companies tell us, their employees are their most important asset.

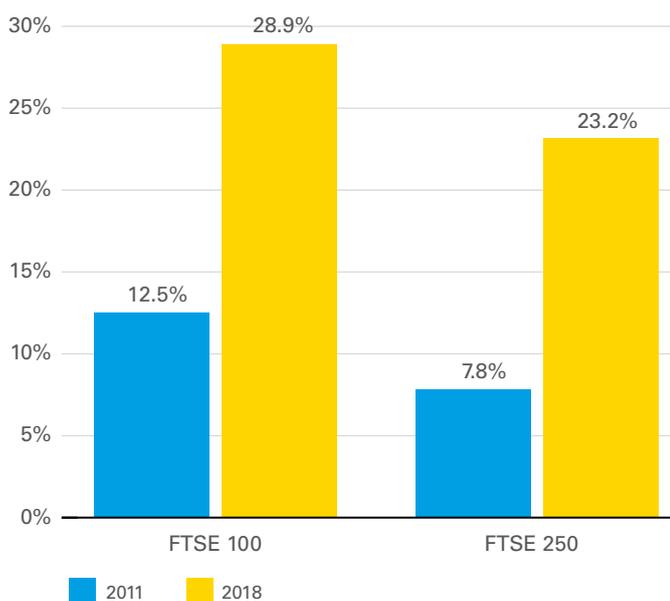
But just talking about diversity is insufficient. As shareholders, we are able to make our views and priorities known through our voting practices at companies’ shareholder meetings. Since 2015 we have been voting against board chairs of FTSE 100 companies, the largest companies in the UK, that have still failed to appoint at least one woman to their board. In 2016, we escalated our policy to incorporate the smaller FTSE 250 index companies and have seen real progress.

For 2018, we shall be voting against all FTSE 350 companies (those companies in the FTSE 100 and the FTSE 250 indices) that have less than 25% female representation at board level. This was the target set by the Davies Report for the largest 100 companies to achieve by the end of 2015. Some companies have achieved this, but many still have not. We’re leveraging our scale in the market as ‘active owners’ to encourage them to do better but also to be clear that this target will be raised.

The [Hampton-Alexander Review](#) is the latest government report on the issue, setting a new target for companies of 33% of women on boards for all 350 companies by the end of 2020, which we also support. Research suggests that once representation of a minority group goes beyond 30% (the ‘critical mass’), this marks an inflection point where these voices are genuinely heard in an organisation rather than what might be regarded as ‘box-tick’ representation³.

We have publically set our 25% threshold for this year and our 30% threshold by the end of 2020 to encourage and help companies to meet the slightly more ambitious 33% Hampton-Alexander target. We are hoping that this

Figure 2. Women on UK Boards



Source: Women on Boards; 30% Club

2. Credit Suisse Research Institute: *The CS Gender 3000: The Reward for Change* (2016), INvolve: *The Value of Diversity* (2018), McKinsey & Company: *Women in the Workplace* 2016

3. Sarah Childs and Mona Lena Krook, *Critical Mass Theory and Women's Political Representation*, Political Studies: 2008

incremental escalation of our voting policy will help companies to understand our expectations and also keep up pressure on improvements for them to get to the 30% critical mass.

Our voting activity on diversity more than tripled in 2016 after our inaugural year of voting on this issue in 2015. The companies in which we invest took notice of our actions — even more so when our voting activity more than doubled in 2017 from 2016 levels.

Engagement with companies and key stakeholders on this topic has also been a fundamental part of our activity and influence. It was one of the top three topics we discussed with companies in 2017. LGIM meets with those companies that we believe need to improve their gender diversity. During these meetings, which may be private or in collaboration with other investors, we not only talk about board level gender diversity, but also the initiatives the company may have in place in order to promote women throughout the workforce and at executive and management levels.

We also encourage companies to establish stronger and more meaningful policies on diversity and to ensure that these are properly disclosed.

OUR PUBLIC COMMITMENT

In addition to engagement and voting, we have been vocal publically on our commitment to this important issue, supporting various initiatives which continually promote gender diversity at UK companies.

LGIM has been an active and contributing supporter of both the Davies Report and the subsequent Hampton-Alexander Review. We promote the report and explain to companies how we use the data it collates and have contributed case studies to illustrate from an investor perspective the importance of this issue.

We have also worked with global head-hunters and asked them to widen their recruitment net to individuals who hold high leadership positions but may not have previous board experience to be considered in the pool of candidates for non-executive director positions. In 2015, we contributed an essay to the UK Board Index Report, released by the head-hunter [Spencer Stuart](#).

Legal & General Group has long been a supporter of the 30% Club with both our CEO and our Chair signed up to this important initiative. LGIM was also an early member of the 30% Club Investor Group and in 2017 were made Co-Chair of the Group which brings together investors to engage with companies on the challenges they face with increasing female representation throughout the business.

Legal & General also signed the [Women in Finance Charter](#) which was launched in 2016. This initiative brings together the government and signatory firms to work together to build a more diverse industry. Over 160 signatory firms pledge to be the best in the industry in terms of gender diversity across all levels of their business. The recent addition of Deloitte, Tesco Bank and the Bank of England has increased the number of employees covered by the Charter to over 600,000.

Finally, Legal & General has published an aspirational target of 50/50 by 2020 – to achieve gender parity in its leadership roles by the end of 2020.

DELIVERING THROUGH DIVERSITY

Increasing diversity is one of the most important issues on which we engage with companies. Expanding the available pool of talent can enhance business decision making and has the potential to improve performance, in our view. This is why LGIM is actively constructing products such as the L&G Future World Gender in Leadership UK Index Fund to help investors capitalise on this opportunity. The Hampton-Alexander review estimates that for companies to meet the 33% by 2020 target, women need to be recruited in two out of every five appointments. It is an ambitious target but one we are committed to helping companies achieve.

A few important reminders

Please remember the value of your investment and any income from it may fall as well as rise and is not guaranteed. You may get back less than you invest. Recommended investment period: medium to long term, ideally five years or more.

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