

# Why Gender Diversity Should Matter to Investors

by Joseph F. Keefe, CEO, and Sallie L. Krawcheck, Chair, Pax Ellevate Management LLC

The business case for gender diversity is now well-documented. The research is compelling: when women are at the table—and better yet, in leadership positions—companies simply perform better.

A 2012 Credit Suisse report found that companies with women directors outperformed those without women directors in return on equity, average growth, and price/book value multiples.<sup>1</sup> A 2013 Thomson Reuters report concluded that, on average, companies with no women on their boards underperformed relative to gender-diverse boards and had slightly higher tracking errors, indicating potentially more volatility risk.<sup>2</sup> A Catalyst study found that companies with three or more women directors outperformed those with no women directors as measured by return on equity, return on sales and return on invested capital,<sup>3</sup> while McKinsey found that more diverse management teams deliver higher returns for shareholders across industries.<sup>4</sup>

Women bring diverse perspectives to the table, their leadership style can drive more innovation and collaboration, they are more likely to ask tough questions, and they often take a different

## KEY TAKEAWAYS

- Despite the powerful business case for advancing women and the clear risks of not investing in women, gender inequality stubbornly persists.
- We have joined together to help change this and to respond to the growing investor demand to be part of the solution.
- Investors can say “no” to all-male corporate boards when voting shareholder proxies, and they can invest in companies that have embraced gender diversity through the Pax Ellevate Global Women’s Index Fund (PXWEX).

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<sup>1</sup> Mary Curtis, “Gender Diversity and Corporate Performance,” Credit Suisse Research Institute, August 2012.

<sup>2</sup> Andre Chanavat and Katharine Ramsden, “Mining the Metrics of Board Diversity,” Thomson/Reuters, June 2013.

<sup>3</sup> Lois Joy, et al, “The Bottom Line: Corporate Performance and Women’s Representation on Boards 2004–2008,” Catalyst, 2011.

<sup>4</sup> “Women at the top of corporations: Making it happen,” Women Matter, McKinsey & Company, 2010.



**Joseph F. Keefe** is President and CEO of Pax World Management LLC and Pax Ellevate Management LLC. An advocate for investing in women, Joe has written and spoken widely on the critical role that gender diversity plays in long-term business success. Under Joe’s leadership, Pax Ellevate Management launched the Pax Ellevate Global Women’s Index Fund, the first mutual fund to

invest in companies that invest in women. He is Co-Chair of the Leadership Group for the Women’s Empowerment Principles, a joint program of the United Nations Global Compact and UN Women, and was honored at the United Nations with the Women’s Empowerment Principles Leadership Award in 2014. In 2012, Joe was recognized by Women’s eNews as one of “21 Leaders for the 21st Century,” and in 2015 the Financial Times named him one of its 10 “top feminist men,” for helping “women succeed in business and beyond.”



**Sallie L. Krawcheck** is the Chair of Pax Ellevate Management LLC and of Ellevest Asset Management, and is Principal of Ellevest Network, a global professional woman’s network, with 34,000 members from across industries and around the world. Ellevest Asset Management has partnered with Pax World to offer the Pax Ellevate Global Woman’s Index Fund, the first broadly

diversified mutual fund that invests in the highest-rated companies in the world in advancing women’s leadership. Ms. Krawcheck is the past president of Global Wealth & Investment Management for Bank of America, the largest wealth management business in the world, whose operating businesses include Merrill Lynch and US Trust. Prior to joining Bank of America, she was Chief Executive Officer and Chairman for Citi Global Wealth Management and Chairman and Chief Executive Officer of Sanford C. Bernstein & Company.

approach to risk. It's not that women or men are "better" but that diverse groups—where both men and women are at the table—make better decisions than non-diverse groups. Indeed, the research suggests that where gender diversity reaches a critical mass of three or more women on a board (roughly 30%), governance improves and so does financial performance.

With the business case for advancing women so clearly documented, the case for investing in companies that are leaders in promoting gender diversity is becoming self-evident. Moreover, as the investment case strengthens, the risks of not investing in women are becoming apparent as well. Businesses that fail to embrace gender diversity on their boards and in upper management limit their own ability to grow and place their shareholders at a disadvantage.

Yet despite the powerful business case for women's advancement, gender inequality stubbornly persists. Today, only 16% of Fortune 500 board seats are held by women.

How do we change this?

And how do we respond to the growing demand among investors for being part of this change? In a recent Center for Talent Innovation report, 90% of women said that "making a positive impact on society" is important to them, and 77% said that they want to invest in companies with diversity in leadership.<sup>5</sup>

Our companies, Pax World and Ellevest Asset Management, have joined together to help answer these questions.

Ellevest Asset Management has been formed to direct investor capital to companies that actively embrace gender diversity. It is owned by one of us (Sallie Krawcheck), who also owns Ellevest Network (formerly "85 Broads") the global professional women's network, which provides women with the networking and educational tools that can be important to their success. Pax World is a leader in sustainable investing, and has long focused on investing with a gender lens and engaging with companies to increase gender diversity on their boards.

In our view, investors are a key constituency for promoting gender diversity in publicly traded companies. After all, it is shareholders who own these companies, and corporate boards are in place to represent the shareholders. If diverse boards perform better than non-diverse boards, then it is in the shareholders' interest to promote greater gender diversity.

There are a few basic steps investors and their financial advisors can take, first, to promote gender diversity on corporate boards and, second, to invest in companies that are advancing women.

Regarding board diversity, investors actually have the opportunity to say "no" to all-male corporate boards each and every year when companies send out shareholder proxies in advance of their annual general meetings. Although most investors don't vote their proxies directly, they can take steps to assure that whoever does vote their proxies—be it their financial adviser, mutual fund or retirement fund—withholds support from all-male boards.

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<sup>5</sup> Sylvia Ann Hewlett and Andrea Turner Moffitt with Melinda Marshall, "Harnessing the Power of the Purse: Female Investors and Global Opportunities for Growth," Center for Talent Innovation, 2014.

Since the 2010-2011 proxy season, Pax World, for instance, has voted against or withheld support for director nominees at more than 800 companies due to insufficient gender diversity and then registered its concern by writing letters to the companies. Many sustainable investing firms like Pax World take a similar stance, and more investors are joining this effort. In other words, if you believe as we do, that women should be better represented in corporate boardrooms, rather than allowing your proxies to rubber stamp all-male corporate boards, you actually have the opportunity to be part of the solution.

Just as importantly, investors now have the option of investing in companies that have embraced gender diversity on their boards as well as in executive management. That's why we have launched the Pax Ellevest Global Women's Index Fund (PXWEX), which invests in the approximately 400 top-rated companies in the world for advancing women, as rated by Pax World Gender Analytics. Companies are ranked based on representation by women on their boards and in executive management, as well as other indicia of gender leadership.

100% of the companies in the Pax Ellevest Global Women's Index Fund have a woman on their board, while 97% have two or more women.

Significantly, evidence shows that when women's representation on boards reaches a "critical mass" of three or more women—or 30% of an average-size board—governance improves and companies perform better. Women hold 31% of the board seats in the Pax Ellevest Global Women's Index Fund (vs. a global average of 11%) and 69% of companies in the Fund have three or more women on their board (vs. a global average of 13%). Investors now have the opportunity to invest in these "critical mass" companies.

Investors, in other words, now have a choice. The Pax Ellevest Global Women's Index Fund has been designed to measure the contribution and capture the investment returns associated with women's leadership.

If you believe as we do, that gender diversity matters, you can now put your money to work.

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### **Pax Ellevest Management LLC**

The Pax Ellevest Global Women's Index Fund, managed by Pax Ellevest Management LLC, is the result of a partnership between Pax World Management LLC and Ellevest Asset Management LLC, whose principal is Sallie Krawcheck. Pax and Ellevest came together because they share the same vision about the critical role that gender diversity plays in business success over time, as well as the investment opportunity associated with investing in women. Pax has long been a recognized leader in investing in women and advocating for greater representation of women on boards. Ms. Krawcheck, one of the most powerful advocates for women in the financial services industry, is Chair of Pax Ellevest Management LLC and a trustee of the Fund.

## Pax World Management LLC

Pax World Management LLC, investment adviser to Pax World Funds, is a pioneer in the field of sustainable investing. Pax World integrates environmental, social and governance (ESG) research into its investment process to better manage risk and deliver competitive long-term investment performance. For over 45 years, Pax World has made it possible for investors to align their investments with their values and have a positive social and environmental impact. Today, its platform of sustainable investing solutions includes a family of mutual funds, as well as separately managed accounts.

## Ellevest Asset Management LLC

Ellevest Asset Management LLC was formed by Sallie Krawcheck to provide investors with a means of directing capital to companies that actively embrace gender diversity and female leadership as a lever for business success. Krawcheck also owns Ellevest Network (formerly 85 Broads), the global professional women's network. Both of these organizations are dedicated to the economic engagement of women worldwide.

*The statements and opinions expressed are those of the authors of this report. All information is historical and not indicative of future results and subject to change. This information is not a recommendation to buy or sell any security.*

**This article was originally published on the Financial Planning website on June 10, 2014. Reprinted with permission.**

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**Fund Objectives:** *The Pax Ellevest Global Women's Index Fund's objective is to seek investment returns that closely correspond to or exceed the price and yield performance, before fees and expenses, of the Pax Global Women's Leadership Index\*, the first and only broad-market index of the highest-rated companies in the world in advancing women's leadership, as rated by Pax World Gender Analytics.*

*\* A custom index calculated by MSCI. One cannot invest directly in an index*

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**You should consider a fund's investment objectives, risks, and charges and expenses carefully before investing. For this and other important information, please obtain a fund prospectus by calling 800.767.1729 or visiting [www.paxworld.com](http://www.paxworld.com). Please read it carefully before investing. An investment in the Pax World Funds involves risk, including loss of principal.**

**Past performance is no guarantee of future results.**

**RISKS:** Equity investments are subject to market fluctuations, the fund's share price can fall because of weakness in the broad market, a particular industry, or specific holdings. The Fund does not take defensive positions in declining markets. The Fund's performance would likely be adversely affected by a decline in the Index. Investments in emerging markets and non-U.S. securities are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation, intervention and political developments. There is no guarantee that the objective will be met and diversification does not eliminate risk.

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Effective June 4, 2014, the Pax World Global Women's Equality Fund was reorganized into the Pax Ellevest Global Women's Index Fund.

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