Evaluating the Glass Ceiling
Understanding and unlocking the value in gender equity

Calvert Research and Management
A global leader in Responsible Investing
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Introduction

The investment case for advancing gender equality in corporations is strong and clear. Women make up 50% of the global working-age population and have educational attainment that is close to comparable with men’s globally. However, figures show that women have significantly lower labor participation rates than men globally and the gap widens when management roles are included.¹

Drawing on Calvert’s long history of leadership advancing gender equity in the workplace, this report outlines the business case for corporations to support more diverse and inclusive workforces from the boardroom to the front line and how investors can be called upon to push for changes that will have a material impact on long-term shareholder value.

In order to do this, we evaluate the research on gender diversity’s material benefits both to companies’ bottom lines and to the broader economy, highlight relevant trends in government and investor actions, and review progress on the path to gender equity, providing global and industry context as needed.

Calvert’s research supports three main findings:

1. Companies that prioritize diverse and inclusive workplaces, demonstrated by greater female presence in leadership positions, have stronger financial performance over time
2. Women’s labor force participation is likely to increase when strong and effective family friendly policies are in place
3. Investors have a role to play in ensuring boards and management support policies that promote gender equity

Successful companies must be able to understand the various trends that will determine their competitive future and plan accordingly. This look at the state of gender equity continues Calvert’s longtime commitment to investment research and engagement that puts gender diversity front and center.

What is the value of gender diversity?

**Gender equity adds to economic value**

Reducing gender disparities in the workplace can bring benefits at the macro level, driving economic growth. There is a strong recent body of evidence showing that gender-diverse workforce participation brings economic benefits globally and in markets at various stages of development. Although the specific situations in countries varies, the World Economic Forum (WEF) noted in its 2017 Global Gender Gap report that a "variety of models and empirical studies have suggested that improving gender parity may result in significant economic dividends." 2

Many studies have modeled potential gains in terms of GDP, based on scenarios reducing inequities in female labor participation, education and wages. The WEF projects that “the world as a whole could increase global GDP by U.S. $5.3 trillion by 2025 by closing the gender gap in economic participation by 25% over the same period.”

Private investment firms have also come to similar conclusions. In a 2017 analysis, Citi examined the potential benefits of taking into account the barriers to formal workforce participation posed by factors such as women’s unpaid care work. Citi estimates that realistic and achievable changes to reduce workplace gender inequalities could “add around 6% to GDP in the advanced economies over the course of one to two decades — a very significant number relative to the potential of other structural reforms or to the relatively depressed growth prospects in advanced economies more generally.” 3

The World Bank has long tracked and provided estimates on the potential economic benefits of reducing gender inequities for many countries that do not qualify as advanced economies. 4 A 2013 staff discussion note from the International Monetary Fund (IMF) summarized the key findings of aggregate research. The paper concluded that there’s “ample evidence” of significant macroeconomic gains when women are able to develop their full labor market potential; that higher female labor participation can boost growth by mitigating the impact of a shrinking workforce in rapidly aging economies; and that developing economies can find economic benefit from mechanisms that improve women’s opportunities to earn and control income. 5

These influential observers of global economics have all seen the potential prospect to improve economic performance and, therefore, increase prosperity by reducing key measures of gender inequality. The potential opportunity to increase national wealth appears to be present for both advanced and developing economies.

While these projections are compelling, realizing the potential gains is not a simple matter with a standard formula. The EU’s European Institute for Gender Equality (EIGE) conducted a comprehensive econometric modelling of gender equality impacts and released the results in 2017. EIGE also projected positive economic benefits from reducing gender inequalities, focusing on areas like STEM (science, technology, engineering and mathematics) education, labor market activity and wages. The specific economic benefits EIGE cited include a higher employment rate, increased jobs for both men and women, increased GDP and greater economic productivity. 6

The EIGE provided details for each member state and noted that benefits can vary in specific situations. For example, potential benefits are greater in member states that have more room to improve. 7 The EIGE also noted that recent research has found that improved gender equality in education, labor market participation and share of unpaid work results in increased fertility.

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7 Ibid.
over time. The group thus concludes that gender equality measures could help EU economies address demographic challenges from expected large increases in older people inactive in the labor market.

Japan has already been facing the demographic challenges the EU anticipates for its member states and applying gender equality measures as part of its economic policy. A quick look at Japan’s recent efforts illustrates some of the benefits and challenges in a real-world situation.

Starting in 2012, Japanese Prime Minister Shinzo Abe pushed a set of initiatives intended to increase women’s participation in the Japanese workforce and advancement into management in the public and private sectors. Boosting lagging female labor participation has been a significant part of an overall strategy to jump-start long-stagnant economic growth. Over five years, the government has expended significant resources to improve these measures. Examples include taking steps to address key barriers such as lack of childcare, an area where the nation lagged peers. Exhibit A shows a comparative view of recent female labor force participation rates (LFPR) among G7 economies, focusing on the prime labor force ages of 25–54.

While Japan has seen a recent significant rise in women in the labor force, the United States is the only G7 nation to see a decline since 2000. Japan has certainly succeeded in raising female LFPR, but other metrics like increasing women in leadership roles have not responded quickly to intervention. In fact, a look at the broader perspective relative to other peers illustrates the Japanese challenge to unlocking the economic potential of gender equality gains.

As Exhibit B shows, Japan continues to lag peers on key scores in the 2018 World Economic Forum Gender Gap Index. The Index’s score for Economic Opportunity and Participation includes five components, only one of which is LFPR. Other measures include gender equity in the following areas: wage equality for similar work, estimated earned income, political and professional management, and professional and technical positions. Japan lags its peers in these measures as well as female representation in positions of political power, namely legislative, cabinet and heads of state. Many observers and policymakers alike have noted that addressing other notable gaps such as pay equity and changing corporate culture to be more hospitable for female advancement may be necessary to unlock potential benefits over the longer term. Turning to the U.S., research has shown similar expected benefits from increasing women’s labor force participation.

S&P Global examined U.S. female labor participation in the context of global stock market returns, which have seen an unusually long bull market that many fear is past its prime. U.S. female labor force participation has stalled since peaking in 2000 while other advanced economies have pulled ahead. S&P Global concluded that increasing U.S. female labor participation rates to the level of other advanced economies has the potential to add $2.87 trillion to U.S stock market value by 2027. Given the prominence of the U.S. in global markets, the change would also add an estimated $5.87 trillion to global stock market value, as the projections represented in Exhibit C show.

**Gender equity adds to corporate value**

Successful companies must be able to understand the trends that will determine their competitive future and plan accordingly. An increasingly diverse set of individuals are making decisions that are important

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Exhibit A

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to businesses. In 2013, women controlled 64% of household spending and $29 trillion in consumer spending globally. These figures were projected to rise by almost a third in 2018. Attracting the best talent is critical to ensuring businesses have the workforce needed to stay ahead, and many companies have been planning their future workforce strategy in line with these trends. Seeking to diversify boards and executive teams is one observable way to work toward that goal.

Research studying the effects of corporate gender diversity in recent decades has shown consistent and strong correlations between positive business results and having diverse gender representation at every level of the corporate structure. The body of research is increasingly comprehensive; the next section provides an overview of the financial benefits of gender diversity on corporate boards, executive leadership and at the team level.

Value of a gender-diverse board
Catalyst, a global nonprofit dedicated to advancing women in the workplace, contributed some of the earliest research on board gender diversity and continues to be active. It has conducted a series of studies that found links between female board representation and financial outperformance in U.S. companies. Examining the Fortune 500 from 2001 to 2004, Catalyst found that companies in the top quartile outperformed those in the bottom quartile by 53% on return on equity (ROE), 42% on return on equity. In 2013, women controlled 64% of household spending and $29 trillion in consumer spending globally. These figures were projected to rise by almost a third in 2018. Attracting the best talent is critical to ensuring businesses have the workforce needed to stay ahead, and many companies have been planning their future workforce strategy in line with these trends. Seeking to diversify boards and executive teams is one observable way to work toward that goal.

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Exhibit B
G7 rankings on 2018 Global Gender Gap Index.

Gender gap factors in subindexes

<table>
<thead>
<tr>
<th>Economic participation and opportunity</th>
<th>Political empowerment</th>
<th>Educational Attainment</th>
<th>Health and Survival</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor force participation</td>
<td>Women in parliament</td>
<td>Literacy rate</td>
<td>Sex ratio at birth</td>
</tr>
<tr>
<td>Wage equality for similar work</td>
<td>Women in ministerial positions</td>
<td>Enrollment in primary education</td>
<td>Healthy life expectancy</td>
</tr>
<tr>
<td>Estimated earned income</td>
<td>Years with female head of state (last 50)</td>
<td>Enrollment in secondary education</td>
<td>Professional and technical workers</td>
</tr>
<tr>
<td>Legislators, senior officials and managers</td>
<td></td>
<td>Enrolment in tertiary education</td>
<td></td>
</tr>
<tr>
<td>Professional and technical workers</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

sales (ROS) and 66% on return on invested capital (ROIC). A later study spanning 2004-2008 generally reaffirmed this, finding that companies with sustained high representation of women on their boards outperformed those with sustained low representation on ROS, ROIC and ROE.11

A 2006 academic study examined the question of what difference female directors made by conducting interviews with directors, CEOs and corporate secretaries within the Fortune 1000.12 The authors concluded that female directors made a positive difference to corporate governance that was additive and reached a critical mass at three directors. The study’s assessment of respondents’ recommendations was that boards should actively seek qualified women as members and should not be satisfied with token representation.

Over the past decade, research interest in this topic has expanded and the years of available data to analyze has increased. Representation of women has also increased, a trend we will examine in this report. All of this has created a wealth of new evidence affirming the case for diverse leadership, often bringing in other dimensions such as executive leadership.

MSCI examined a global snapshot of companies from 2011 to 2016, focusing on companies it identifies as having risks related to talent recruitment and retention. This analysis found that companies with more gender-diverse boards in 2011 outperformed on ROE and earnings per share (EPS) over a five-year period. Specifically, those companies with at least three women on their boards had median increases of 10% in ROE and 37% in EPS by 2016, while those with no women had median decreases of 1% and 8%, respectively, over the same period. Furthermore, adding any number of female directors correlated with higher median increases in EPS compared to losing women from the board during the same period.13

Credit Suisse Research Institute (CSRI) examined board and executive gender diversity in a series of reports from 201214, 201415 and 2016.16 Among other findings, CSRI found that board diversity was linked to higher ROE, lower leverage and higher price/book ratios.

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Exhibit C

Estimated stock market growth with higher female labor force participation rate.

![Graph showing estimated stock market growth with higher female labor force participation rate.](image)

Value of a gender-diverse C-suite

In a 2004 study, Catalyst assessed a sample of 353 Fortune 500 companies from 1996 to 2000, finding a link between more gender-diverse executive teams and corporate financial performance. The top quartile for gender-diverse management outperformed the bottom by 35% on ROE and 34% on total return to shareholders.\(^\text{17}\)

The Peterson Institute for International Economics published a study in 2016 that analyzed almost 22,000 firms globally, finding a repeated and significant link between higher level of females in C-suite management and firm profitability. There was no observable direct impact on firm profitability from increased female board representation or a female CEO, however, there was a correlation between the board representation and the number of women at an executive level.\(^\text{18}\)

McKinsey conducted research in 2015\(^\text{19}\) and 2018\(^\text{20}\) examining the relationship of gender diversity in board and executive leadership to company financial performance, finding correlations between more diverse leadership and measures of profitability and long-term value creation. In 2018, McKinsey expanded its data set to over 1,000 companies in 12 countries, affirming the link between diversity and financial performance. Overall, companies in the top quartile for gender diversity on executive teams were 21% more likely to outperform on profitability and 27% more likely to have superior value creation.

Proxy advisory firm Institutional Shareholder Services (ISS) also affirmed the link between company performance and gender diversity at executive and board levels.\(^\text{21}\) Its 2018 analysis of the Russell 3000 found that C-suite diversity drove strong financial performance, with companies with at least two women on the senior executive team having a higher ability to earn and increased profitability. ISS also found that boards with at least two non-CEO women had lower risk profiles, as measured by stock price, profitability volatility and debt obligation vulnerability. Companies without gender diversity at executive and board levels fared worst on performance and risk measures, as well as valuation.

Value of gender-diverse teams

Isolating the value of diverse representation at the highest levels of corporations is powerful, but still only examines a part of the picture. If diversity within the bodies that oversee corporate operations brings a material benefit, diversity among teams and team managers should also bring a material benefit. Unfortunately, corporate disclosure of gender diversity at the employee level is quite poor, making comprehensive examination a challenge. However, recent research has shed some light on the ways in which diversity can play a factor in building business value at the team level. Academic studies have found that gender-diverse teams are associated with innovation and market opportunities.\(^\text{22}\)

Most recently, a 2017 study by Boston Consulting Group (BCG) and the Technical University of Munich examined 171 German, Swiss and Austrian companies and found a positive link between diversity and innovation, as measured by revenue tied to products/services launched in the past three years. A key measure of overall financial performance, EBIT margins, was also higher. Regarding gender, the innovation revenue boost begins once the proportion of female managers rises above 20%. The study also examined six types of diversity and found significant correlation to innovation among four: gender, career path, country of origin and industry background.\(^\text{23}\)

In 2018, BCG extended the research to using surveys of employees at over 1,700 companies in eight countries across a variety of industries and company sizes. Again, BCG found a strong and statistically significant


correlation between innovation and the diversity of management teams along the same four dimensions, as well as EBIT margins.24

**Government and investor trends**

Governments and investors are increasing pressure on companies to increase representation of women in corporate leadership. Legislative or regulatory requirements and guidance regarding gender representation on corporate boards have been growing over the past decade. As the consensus of research demonstrating the material value of a gender-diverse board has grown, so has investor pressure on companies to act.

There are also some indications that internal forces may be driving more focus on increasing gender representation as well. As companies expand diversity and inclusion efforts and broader corporate responsibility efforts, this may logically lead corporate leadership to take action to increase diversity in their own executive ranks. The 2017 launch of the CEO Action for Diversity and Inclusion is one sign of increased focus by corporate leaders on making concrete commitments to foster diversity and inclusion. CEOs from over 500 companies across various industries have joined the group, committing to expand and improve programs and training in the workplace, share best practices and track progress.25

**Impact of increasing government action**

Some jurisdictions have instituted mandatory requirements, while others have put in place quantitative targets without penalties. Many have required disclosure relating to diversity as a means to track progress. Norway was the first country to institute a requirement, introducing a mandate in 2003 that all listed companies have 40 percent women on their board by 2008. Since then, momentum has increased for similar requirements. Exhibit D summarizes some of the most significant government actions in countries that have a direct

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**Exhibit D**

**Country requirements and female share of board seats (2010–2016).**

<table>
<thead>
<tr>
<th>Country</th>
<th>Current board quota or target level</th>
<th>Disclosure or other guidance only</th>
<th>Year effective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iceland</td>
<td>40%</td>
<td>n/a</td>
<td>2013</td>
</tr>
<tr>
<td>Norway</td>
<td>40%</td>
<td>n/a</td>
<td>2008</td>
</tr>
<tr>
<td>France</td>
<td>40%</td>
<td>n/a</td>
<td>2017</td>
</tr>
<tr>
<td>Sweden</td>
<td>None</td>
<td>No</td>
<td>n/a</td>
</tr>
<tr>
<td>Finland</td>
<td>None</td>
<td>No</td>
<td>n/a</td>
</tr>
<tr>
<td>Italy</td>
<td>33%</td>
<td>n/a</td>
<td>2015</td>
</tr>
<tr>
<td>Netherlands</td>
<td>30%</td>
<td>n/a</td>
<td>2013</td>
</tr>
<tr>
<td>UK</td>
<td>33%</td>
<td>n/a</td>
<td>2011</td>
</tr>
<tr>
<td>Germany</td>
<td>30%</td>
<td>n/a</td>
<td>2016</td>
</tr>
<tr>
<td>Belgium</td>
<td>33%</td>
<td>n/a</td>
<td>2016</td>
</tr>
<tr>
<td>Spain</td>
<td>40%</td>
<td>n/a</td>
<td>2015</td>
</tr>
<tr>
<td>Canada</td>
<td>None</td>
<td>Yes</td>
<td>2015</td>
</tr>
<tr>
<td>US</td>
<td>None</td>
<td>No</td>
<td>n/a</td>
</tr>
<tr>
<td>Japan</td>
<td>None</td>
<td>No</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Source: OECD, Institutional Shareholder Services, and Calvert research.

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corporate presence in global capital markets.\textsuperscript{26} It also shows recent trends in female representation on board seats in the largest companies.\textsuperscript{27}

Where present, the mandatory requirements have appeared to exert a direct positive influence on female board representation. Notably, Finland and Sweden do not have formal quotas or targets, but have strong government programs and policies to improve gender equity in business and society,\textsuperscript{28} from parental leave to longstanding codes that encourage gender equity. Both countries have a relatively strong female presence on corporate boards, which has continued to progress since 2010, even in the absence of direct formal action. Taken together, this information strongly suggests that there is no one-size-fits-all solution, but that various combinations of government programs and regulations get results.

**Impact of investor action**

Investor pressure to increase gender parity on boards has also gained momentum in recent years. The marketing firm Edelman observed some of this in its 2018 Trust Barometer survey of global institutional investors. It found that 98\% of investors think public companies are “urgently obligated to address one or more societal issues to ensure the global business environment remains healthy and robust,” and included workplace diversity as one of the top five issues.\textsuperscript{29} More specifically, 53\% of U.S investors think companies should take a public stand on workplace diversity and 57\% strongly agree that board and executive diversity affect their trust when considering investing in or recommending a company.\textsuperscript{30} Furthermore, 63\% of investors said their firm has changed its voting and/or engagement policy to be more attentive to environment, social and governance (ESG) risk in the last year.\textsuperscript{31}

Proxy voting has been one visible measure of this trend, especially in the area of votes on corporate directors. In its review of 2018 voting results in Europe, ISS noted “a growing pressure on companies’ boards for greater director accountability on a wide range of issues”,\textsuperscript{32} including gender diversity. ISS found that shareholder dissent\textsuperscript{33} on votes for nominating committee chairs was 6.7\% where boards had less than 25\% women, significantly higher than the rate of 2.4\% where boards included 25\% or more women. This dynamic is evident in the United States as well, where ISS has tracked the trend for a number of years for the Russell 3000. The results shown in Exhibit E strongly suggest that investors are starting to take greater action on gender diversity in director votes.\textsuperscript{34} Over the past three years,

\begin{center}
\textbf{Exhibit E}

\textbf{Support for nominating committee chair – Russell 3000.}

\end{center}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{exhibit-e.png}
\caption{Exhibit E shows the median support for nominating committee chair votes on the Russell 3000 from 2013 to 2018.}
\end{figure}

Since 2016, there has been a clear shift in votes for the board position most directly involved in new director selection, a signal of emerging investor discontent with non-diverse boards.


\textsuperscript{26}Data compiled via Calvert research.
\textsuperscript{27}OECD data, Female share of seats on boards of the largest publicly listed companies, accessed on 12/3/18 from OECD.stat; Gender Parity on Boards Around the World, ISS, December 2016.
\textsuperscript{30}Ibid, p.37.
\textsuperscript{31}Ibid, p.15.
\textsuperscript{32}2018 European Voting Records Report, ISS.
\textsuperscript{33}ISS calculates free-float dissent, which excludes strategic shareowners with more than 10\% holdings in order to isolate the sentiment of the broader market.
\textsuperscript{34}Data from ISS Analytics, Governance Insights, 10/5/18.
there has been a clear shift in votes against the election of chairs of board nominating committees, coinciding with increasingly strong policy stands taken by larger investors seeking action on board diversity through their formal proxy-voting policies.

**Calvert’s approach to gender diversity**

For decades, Calvert has utilized our power as a shareholder to become a part of positive change through responsible investment choices and active engagement. Diversity, equity and inclusion have been central themes in our research and engagement. We have assessed the available research on diverse, equitable and inclusive approaches to business and found consistent evidence of positive value to both companies and society.

**Calvert’s research process**

We assess corporate issuers on their gender-diversity records as part of our investment research process, which uses peer group models to analyze companies’ performance on the ESG risk and opportunities that we believe to be financially material to their business. Today, the set of information from issuers does not yet provide the comprehensive and consistent data needed to meet investors’ needs. Recognizing the data limitations, our models use the best available proxies to measure a company’s approach to diversity. A measure of the percentage of women on corporate boards is present in every model at a minimum level of 6% of the overall model. Calvert uses other metrics assessing diversity programs in select industry models as part of evaluating a company’s approach to human capital development.

**Calvert engagement**

We also join with other like-minded investors to engage with companies through direct conversation, proxy voting and shareholder resolutions. We have filed numerous shareholder resolutions over the years urging lagging portfolio companies to improve their approaches to gender diversity and often incorporate the issue in direct engagements with issuers. We are an active member of the Thirty Percent Coalition, coordinating engagement strategy with other institutional investors. These actions serve to focus on a select group of key companies.

Calvert also takes a comprehensive approach to incorporating gender diversity into our proxy voting. We support proposals requesting that companies adopt policies or nominating committee charters to assure that diversity is a key attribute of every director search. We also oppose individual directors who serve as members of the nominating committee if the board lacks at least one woman and one person of color, and the board is not at least 30 percent diverse. By voting proxies of portfolio companies in this way, we are able translate a strong commitment to diversity broadly across the thousands of companies held in Calvert strategies.

**Calvert Women’s Principles**

The importance of this investment theme inspired the launch the Calvert Women’s Principles (CWP) 15 years ago, the first corporate code of conduct focused on gender equity. Calvert developed the CWP in partnership with United Nations Entity for Gender Equality and the Empowerment of Women (UN Women) in 2004. The CWP were the forerunners to the Women’s Empowerment Principles (WEP), introduced by UN Women and the United Nations Global Compact (UNGC) in 2010, which have been adopted by over 1,800 global business leaders to date.

**Calvert diversity reports**

Calvert has also explored the developments in research and corporate practices through our series of biennial diversity reports from 2011 to 2017, which focused on the diversity practices of the Standard & Poor’s 100 Index. By the end of that time, we observed that most companies in this benchmark of the largest U.S. companies had adopted and disclosed a core set of diversity and inclusion initiatives and policies, as indicated by improved scores across the peer group. While variation in the depth and quality of strategies remained, top-level indicators were in place at almost all companies. However, we noted in 2017 the less impressive progress when it came to actual diverse representation among top executives and directors at these companies. Furthermore, there was very little movement to disclose the employee demographic information, which is necessary for consumers and investors to determine the effectiveness of company diversity initiatives.
What is the path to increased gender equity?

Where are the women? Key demographic trends

A growing consensus believes many forces will disrupt the future workforce. Demographic and socioeconomic trends that are shaping the strategy of global business leaders include climate change, rising youth and middle class in emerging markets, aging in advanced economies, and women’s growing economic power and aspirations. Technological developments will also drive workforce changes in upcoming years, including mobile technology, big data, and automation and artificial intelligence.\(^{35}\)

Companies across all regions and sectors are looking to plan their future workforce strategies in line with these trends. Attracting the best talent will be critical to ensuring companies have the workforces needed to stay ahead, and investors will expect companies to compete for that diverse talent. Women compose 50% of the global working-age population and have educational attainment that is close to comparable with men’s globally. However, global figures show that women have significantly lower labor participation rates than men globally and lag even further behind when it comes to management roles.\(^{36}\)

Focusing in on the U.S. market specifically, key demographic trends are an aging population and an economy driven strongly by services industries. Women’s educational attainment and some measures of financial power have shown significant increases over time. However, broader indicators of women’s labor participation and other measures of representation show slower growth.

Aging population

As with many developed economies, the U.S. population profile has been aging and the U.S. Census Department projects that trend to continue over the coming decades. Exhibit F illustrates the projected population changes, showing a population with sizable growth in ages above age 65.\(^ {37}\)

Skilled labor demand

According to the U.S. Bureau of Labor Statistics, the U.S. labor force will have the most significant growth in jobs that typically require some post-
secondary education, with fields requiring advanced degrees showing the highest projected growth.\textsuperscript{38} Exhibit G displays where the U.S. job growth will be concentrated according to the general educational level expected.

**Services are driving GDP**

Services are the dominant portion of U.S. GDP, at 77% of GDP, while industry contributed 19% and agriculture 1%. Historically, industry peaked at 38% of U.S. GDP in 1955 and agriculture at about 70% around 1840.\textsuperscript{39} As the Exhibit H shows, the dominance of services is on the high end compared to other large advanced economy peers.\textsuperscript{40}

**Women’s participation in the workforce**

In 2017, U.S. women’s LFPR in the peak working ages was 86% of men’s (67.9% to 79%). Exhibit I displays the recent trend compared to men and the overall labor force.\textsuperscript{41} The past couple of decades have seen an overall decline for both groups, but the gap between male and female participation has narrowed only slightly, from 13.2% in 2000 to 11.1% in 2017.

**Women's educational attainment**

While women's labor force participation has persistently lagged that of men, the trend in education has been starkly different. U.S. women’s educational attainment in terms of higher education is strong overall compared
to that of men, a trend also seen globally. Exhibit J shows key U.S. trends regarding women’s educational attainment. The left side of Exhibit J displays the share of the U.S. population aged 25–54 that has achieved at least a bachelor’s degree.42 The right side shows that women are now earning over half of degrees at every level of postsecondary education.43 This is even true for the most advanced educational level, doctor’s, which includes medical, law, Ph.D. and comparable degrees. By all broad measures, women in the U.S. have been reaching the education targets that prepare them for the workforce at notably higher rates than men.

Women’s participation in political leadership
As we consider how to address gender equity in business decision-making, it is worth observing the measures of gender equity in political decision-making as well. The U.S. lags developed-market peers in gender equity in political leadership. As of 2018, women held 19.6% of seats in U.S. Congress, compared with an average 29.7% within the OECD. Exhibit K shows the recent trend for the U.S. compared with the average for OECD peers.44 Like Japan, the U.S. lags its G7 peers in women's political empowerment as measured by the World Economic Forum’s Global Gender Gap Index (see Exhibit B on p. 5).

Women’s economic power – wages
Another key area where women lag is wages, income and wealth. According to the World Economic Forum's 2018 Global Gender Gap report, U.S. women’s estimated earned income is 65% of men’s ($46,914 to
$72,413), and women’s wages for similar work are 80% of men’s. Exhibit L shows the most recent OECD data for member countries.45

**Women’s economic power – consumer purchases**

Despite the persistent inequality in the measures of labor force participation, business and political power, and income levels, some signs point to women’s growing economic clout. Globally, women control a growing slice of consumer spending. A broadly cited 2009 survey by Boston Consulting Group projected that women will control close to 75% of discretionary spending worldwide by 2028, driven in part by significant income growth. A 2014 Prudential analysis found that women controlled 51% of personal wealth in the U.S. and projected U.S. women to inherit 70% of intergenerational wealth transfers over the next 40 years.46 This suggests a significant shift is underway in consumer purchasing power.

**Women’s economic power – home ownership**

Another potential indicator of women’s emerging economic power comes from data about recent homebuyers in the U.S. Exhibit M shows 2017 data from the National Association of Realtors, an industry

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45OECD data, Gender wage gap, accessed on 2/3/19 from OECD.stat.
association that tracks the national market closely. Single females purchased twice the homes in 2018 as single males, similar to figures from 2015–2017. Comparable data across countries could not be located, making global comparisons difficult.

When and why do women leave the workforce?
Female educational attainment is equal to or even outpaces that of men, yet data from the U.S. shows that gender diversity in the corporate labor pool begins to narrow starting at the point of entry-level hire and continues upward to the top executive level. The easiest metric to track is women’s representation on corporate boards, which many research entities track and analyze. Reports of annual progress garner significant public attention. However, the research on what happens at other levels in the workplace is harder to measure and thus gets less public examination.

Examining gender representation in US corporations
Since 2015, McKinsey and LeanIn.org have conducted annual surveys documenting both gender and racial/ethnic representation in the corporate pipeline. From 2015 to 2018, 462 North American companies employing 20 million people participated, sharing data about employee representation and diversity programs and policy. In their 2018 results, they find that women remain significantly underrepresented at all levels in corporations, from the entry level through to the C-suite, and women of color are the most underrepresented. Over the four years, they found little indication of progress.

Exhibit N brings together comparable data on two other two data points to give an even broader view of the corporate pipeline. Data from the National Center on Education Statistics shows the U.S. figures for

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bachelor’s degrees awarded in 2015–2016, as a proxy for the U.S. corporate labor pool. The 2018 Deloitte/Alliance for Board Diversity Fortune 500 board census provides the best available view of representation at the corporate board level.

Taken together, this information provides a more complete window into gender representation than board-level statistics alone. Gender diversity in the corporate labor pool begins to narrow starting at the point of hire at the entry level, and continues upward to the top executive level. Recent upticks in gender representation at the board level has just begun to tip a major imbalance that is present at all levels of employment at corporations. This suggests that companies that wish to benefit from the available gender diversity in the labor pool must look beyond the board to focus on recruitment, retention and career development.

Are companies making progress? Key business trends

A combination of ESG data metrics provides a deeper look into the profiles of corporate boards and executive teams across cap sizes in the United States. The S&P 1500 Index represents about 90% of the market capitalization of U.S. stocks, with components that reflect large cap (S&P 500), mid cap (S&P 400), and small cap (S&P 600).

We reviewed three widely available metrics of female representation in company leadership: the number of women on a board, the number of women in board leadership roles and the number of women among Named Executive Officers (NEOs). Exhibit O shows the average results based on company size for U.S. firms.

NEOs is a relatively standardized measure, which the SEC defines as the principal executive officer (such as a CEO), the principal financial officer (such as a CFO) and the next three most highly paid executives. While the number of board members and board leadership roles may vary somewhat from company to company, comparing the number of women even if team size varies slightly does demonstrate that the rarity of women at these levels of leadership persists in 2018.

The averages of overall female board representation mirrors the findings of others researchers who track the level of women on corporate boards. Large companies have been succeeding in getting multiple women on corporate boards, where there is an average of 2.7 women on each corporate board. However, the numbers begin to taper off noticeably in smaller companies, with an average of two women per mid-cap board and 1.6 per small-cap board.

When we examine the other two metrics related to female leadership, the numbers are much lower overall and show little evidence of better performance for large companies. While the average S&P 500 company has multiple women on the board, there are only 0.74 women in board leadership roles and 0.42 in the elite ranks of executive leadership. The average numbers are slightly less for the average small- and mid-cap company. In 2018, women in board leadership and top executive ranks remains equally low for US companies of all sizes.


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50ISS defines board leadership roles as: board chair, key committee chair, Senior Independent Director, non-employee chair, or Lead Director.
51Companies determine NEOs, using SEC guidance, and use the group to reports on compensation metrics in regulatory filings, such as proxy statements and 10-Ks. For smaller reporting companies (public float <$250 mn), it includes a company’s principal executive officer and the company’s next two most highly paid executive officers.
Women in corporate leadership – 2018 global comparison

To get a more global view on the state of gender representation, we examined available 2018 data for the S&P Global 1200. This index is constructed from seven regional indices: S&P 500 (US), S&P Europe 350, S&P TOPIX 150 (Japan), S&P/TSX 60 (Canada), S&P/ASX All Australian 50, S&P Asia 50 and S&P Latin America 40. Together, these indexes capture about 70% of global market capitalization and provide a good basis for assessing the relative performance of large-cap companies.

Exhibit P compares the regional performance of these indexes for two widely available metrics of female representation in corporate leadership: percentage of women on corporate boards and on executive teams. A global comparison makes it challenging to find standard definitions of categories, as regulations and customary structures vary by jurisdiction. In particular, the size of the executive team varies significantly. This is because companies have more leeway to define the team they present in public-facing materials than they do under the SEC’s guidance for NEOs, which determine compensation tables in annual proxy disclosures.

The results fall into two relatively distinct groups. Four regions demonstrated stronger performance, while three had significantly lower female representation on corporate boards. Average female board representation is above 30% in Europe and Australia, above 25% in Canada and close to 25% in the U.S. Japan, Asia (Hong Kong, Korea, Singapore, Taiwan) and Latin America (Mexico, Brazil, Colombia, Chile, Peru) each averaged below 10%, a significant drop.

The average percentage of women among executive teams is significantly lower overall across all markets. Australia leads with 23%, followed by the U.S., Canada and Europe. The Asian index comes in at just under 12%, and is the only index with a higher rate of women in executive positions than on corporate boards. As with board diversity, Japanese and Latin American averages are significantly lower than the other regions.

Even using these relatively standardized measures for boards and executive teams, it is challenging to get percentages or ratios that work across the various company models. However, the raw numbers do serve as some validation of survey findings from McKinsey that show a corporate pipeline that continues to lack significant female representation in top positions across companies of all sizes.

Exhibit P


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53“Percentage of women on board,” Institutional Shareholder Services data; “Percentage of women executives,” Bloomberg ESG data; accessed on 12/17/18.
Why do women leave? Initial insights

Recent upticks in the ranks of women on large corporate boards in the U.S and other markets are a positive sign. However, in this report we took a broader view to examine the state of gender equality at many levels across corporations, as well as the mounting evidence that increased gender equity in employment has broad benefits for businesses and economies.

The investment case is strong for ensuring that boards and management support policies that constructively support gender equality. Investors are increasingly acting on the evidence, following a path set by Calvert and many other responsible investors, incorporating gender diversity as an aspect of investment analysis and even beginning to incorporate it into proxy voting.

Understanding how and why women’s participation in the workforce lags can help point the way to next steps for investors and companies alike. A 2017 study by the staff of the Federal Reserve Bank of New York analyzed the preferences for job attributes by gender and found that women are lost during child-bearing years from jobs that do not support flexible work and family leave. McKinsey-Lean In’s annual Women in the Workplace report provides another aspect of insight into the matter. Based on a survey of more than 64,000 employees, the authors conclude that women still report experiencing discrimination. They often feel the added scrutiny that comes from being the only woman in the room.

The Brookings Institution’s Hamilton Project has identified similar underlying reasons for low U.S. women’s labor force participation. In the Project’s October 2017 book, “The 51% - Driving Growth through Women’s Economic Participation,” contributors note that limits on workplace flexibility, paid maternal leave and childcare all conspire to limit the labor market opportunities of women and discrimination plays a role in continuing gender income gaps.

A quick look at the state of parental leave shows one of the institutional barriers to addressing the persistent gender gaps in the workplace. Exhibits Q and R show mandated paid leave for mothers and fathers, respectively, for many of the countries discussed in this paper. Importantly, figures adjusted for salary payment rate give a clearer picture of leave that is most likely to be accessible.

Overall, the research suggests that difficulty balancing work and family responsibilities, finding tools to advancement, and persistent discrimination remain impediments to gender equity. Companies that wish to benefit from the available gender diversity in the labor pool must look to develop efforts that may address these issues. Both governments and companies have the potential to create change, and many investors are paying especially close attention to corporate activities.

There is also research on what type of corporate programs can help attract and retain qualified women and create a corporate culture that supports inclusion and equality. The Boston Consulting Group analyzed the ROI for various diversity programs in a 2017 study. It found that while over 90% of companies have a gender-diversity program, only one in four women felt that they have personally benefited from such programs.

Overall, programs that they found had significant value included ones that: provided flexible working models; addressed bias in recruiting, evaluation and promotions; directly supported networking and professional development; and targeted key moments of intervention, such as returning from parental leave.

A 2016 study published in the Harvard Business Review identified common traits of programs that helped increase diversity. The authors found that programs that focused on control tended to fail, but those that most consistently got positive results focused on the following three principles: engaging managers in solving the problem, exposing managers to people from different groups and encouraging social accountability for change. Diversity programs in line with the positive results included: voluntary training, college recruitment, mentoring programs, diversity task forces and dedicated diversity managers.

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57Data compiled from OECD Family Database and report, “Key characteristics of parental leave systems.” https://www.oecd.org/els/soc/PF2_1_Parental_leave_systems.pdf
Exhibit Q
Length of paid leave available to mothers and leave adjusted for payment rate – 2016.

Source: OECD, Maternal leave adjusted for payment rate

Exhibit R
Length of paid leave reserved for fathers and leave adjusted for payment rate – 2016.

Source: OECD, Paternal leave adjusted for payment rate
### Appendix A

#### Key diversity metrics – US markets, by sector

<table>
<thead>
<tr>
<th>SUBINDEX</th>
<th>Average of # Women NEOs*</th>
<th>Average of % Women on Board</th>
<th>Average of # Women in Board Leadership</th>
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<tr>
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<td>0.45</td>
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<td>S&amp;P MidCap 400</td>
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<td>S&amp;P SmallCap 600</td>
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<td>S&amp;P SmallCap 600</td>
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<td>Consumer Staples Total</td>
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<td>S&amp;P SmallCap 600</td>
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<tr>
<td>Health Care Total</td>
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<td>0.63</td>
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*Named Executive Officer (NEO) as defined by the SEC, includes the principal executive officer, the principal financial officer, and the next three most highly paid executives.*
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<td>Materials</td>
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