"Gender Fund": Creating a virtual mutual fund investing in firms with gender diversity

By

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Bachelor's in Business Management
EDHEC Business School, 2012

SUBMITTED TO THE MIT SLOAN SCHOOL OF MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF

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May 8, 2015

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Maria Tomic

Submitted to MIT Sloan School of Management on May 8, 2015 in Partial Fulfillment of the requirements for the Degree of Master of Science in Management Studies.

ABSTRACT

“Companies with more women board directors experience higher financial performance” (Bottom Line report from Catalyst). This shows that gender diversity at the board level is a hot topic.

In October 2014, Credit Suisse came to similar conclusions; “Diversity is in focus today, not just for equality and governance priorities, but for the benefits for companies and shareholders”.

During a financial research project sponsored by Acadian Asset Management our team of 3 people investigated whether these conclusions were reliable. We adopted an approach comparing portfolios with at least one woman on board to portfolios with no women on board. However, our results on average did not show much evidence of a statistically significant correlation between performance and gender diversity at board level.

On the one hand, one could argue that a portfolio manager hardly ever gets statistically significant results that his or her strategy will work. S/He always has to make a bet at some point and trust his or her instinct. On the other hand, one could wonder whether the number of women on board is the right metric for gender diversity within a firm. Indeed, depending on which board committee these women are on, they have more or less impact. Sometimes they might just be figureheads rather than decision makers and sometimes the board itself may just be an echo of the CEO’s decisions.


2 Finance Research Practicum, MIT Sloan School of Management, Jan.2015.
The hypothesis here will be that gender-diverse firms do outperform, but for a firm to be considered as such, there would have to be a significant number of women within the senior staff and not only at the board level. We will also hypothesize that among good firms and good portfolios, portfolios encouraging women leadership outperform.

To test that, we will start with a top-down approach and use a shortlist of firms that satisfy that criteria (the more than 400 stocks from the MSCI ACWI PAX Global Women Equality Index\(^3\)). We will then do a stock-picking to come up with a portfolio of around 15 stocks that we believe are better than their peers. The strategy focuses on the long-term since we believe that the benefits of gender-diversity are seen through the corporate culture and strategy and thus need to be assessed in a long-run perspective.

**Thesis Supervisor:** Jeffrey Shames  
**Title:** Senior lecturer at MIT Sloan School of Management

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\(^3\) data obtained from MSCI during the Finance Research Project sponsored by Acadian Asset Management.
Acknowledgements:

First I would like to express my gratitude to my thesis advisor Professor Jeffrey Shames, for his time and his valuable guidance throughout my work. Professor Shames gave me the autonomy to research a subject I was passionate about and at the same time taught me how to translate lessons learned in the classroom into investment decisions.

I would also like to thank Professor John Minahan, my teammates Elise Mordos and Irene Liu, our project supervisor Asaf Bernstein as well as our sponsors from Acadian Asset Management Wesley Chan and Asha Mehta for making the Finance Research Practicum such a great and memorable experience.

And, of course, I would like to thank my dearest MSMS classmates for their support and their amazing sense of humor. Special thanks to Chanh Phan and Chris Bolzan for being such great listeners, keeping the community so tight, and making sure we got the most out of our experience at MIT.

I would like to finish by thanking my parents and my grand-mother for continuously encouraging me to do my best in my studies.
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Introduction

“Companies with more women board directors experience higher financial performance” (Bottom Line report from Catalyst). This shows that gender diversity is a hot topic and this thesis will try to assess whether such enthusiasm is justified.

In October 2014, Credit Suisse came to similar conclusions; “Diversity is in focus today, not just for equality and governance priorities, but for the benefits for companies and shareholders”.

We will start by testing whether investing in firms with women on board is a good strategy. We will then show that the key metric for women leadership within a firm is not the number of women on board but a mix of the number of women on board and the number of women in top management positions. Then, we will construct a portfolio of stocks with women on the board and in top management positions and for which we have a strong conviction.

1) Investing in firms with women on board - a good strategy?

Credit Suisse research on women on boards of directors showed that since 2005, companies with at least 1 female director have returned a compound 3.7% above their male-only counterparts. It also showed that since 2005, ROEs of companies with a female board member have averaged 14.1% vs. 11.2% for all male boards.

a) Data gathering, facts and figures

We started our financial research project for Acadian Asset Management with the database Credit Suisse used to come to these conclusions. They had a universe of around 2400 stocks from 36 different countries (from the MSCI ACWI index) and had the number of women on board for each of these stocks for every year from 2005 to 2013. Our 3-person team then matched every stock with the returns and accounting data for the given period.


This process was quite tedious since it involved making sure that there were no duplicates (different share classes with different ISIN codes but corresponding to the same company), and no inconsistencies (a firm disappeared or merged in the sample period) within the data. Most of the data was obtained through Capital IQ and some was manually obtained from Bloomberg.

We then turned the obtained data into charts and here are the resulting graphs:

**Monthly Return (all companies) - Global**

Here we see that firms with male-only boards tend to outperform slightly. Therefore, our results seemed to contradict those from Credit Suisse. This is because Credit Suisse only presented the data for companies that had a market capitalization greater than $10bn.
Here, we see that our results match those from Credit Suisse. We decided to look more closely at this phenomenon by comparing the number of women on board for firms with a market capitalization greater than $10bn and observed that a majority of these firms had at least one women on board.

Therefore, we wondered whether the superior performance of firms with at least one women on board within the >$10bn firms universe might just be related to the fact that most of the >$10bn firms have women on boards. Indeed, if in the >$10bn firms universe we had an equal number of firms with and without women on board, then the difference in performance could reasonably be explained by the WoB metric. However, here, the under-performance of firms with no woman on board might just be linked to the fact that these firms are a minority and thus may not be a representative sample.
Other interesting results:

We also noticed that firms with women on board (WoB) had a greater ROE and payout ratio on average.

**Median Trailing ROE by Percentage of WoB - Global**

![Graph showing median trailing ROE by percentage of WoB]

**Median Trailing Payout Ratio by Percentage of WoB - Global**

![Graph showing median trailing payout ratio by percentage of WoB]

The ROE and the payout ratio are indeed metrics that female directors can impact. Here is how. A Catalyst study for the “Why diversity matters” paper showed that having women on the board makes the case for a better corporate governance and board oversight. Looking at Standard and Poor’s firms, they found that “gender diverse firms had higher levels of boardroom involvement and corporate oversight”. They also observed a higher board involvement.

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6 Catalyst, Why diversity matters, July 2013
meeting attendance among female directors as well as an improved attendance of male directors in gender-diverse boards. This attendance factor is critical for the board to fulfill its mission to “monitor the organization’s finances and link the strategic plan to a strategic financial plan”. Therefore, having at least a woman on board would mean there is a better corporate governance which is synonymous with a greater involvement from the directors to implement a business strategy in line with the financial strategy, thus improving ratios such as ROE.

b) Hypothesis testing & regressions:

We wanted to test whether an investment strategy that would long firms with at least one woman on board and short firms with no women on board would generate a positive alpha. In order to do that we ran a 3-factor Fama-French regression using monthly return data.

\[
\text{Stocks with > 0\% WoB - stocks with 0 WoB} = \\
\alpha + \beta_1 \times HML + \beta_2 \times SMB + \beta_3 \times (Mkt-Rf) + \epsilon
\]

This regression did not give any statistically significant result.

We also ran a 4-factor Fama-French-Carhart regression and obtained no significant result either.

\[
\text{Stocks with > 0\% WoB - stocks with 0 WoB} = \\
\alpha + \beta_1 \times HML + \beta_2 \times SMB + \beta_3 \times UMD + \beta_4 \times (Mkt-Rf) + \epsilon
\]

7 Jerome Morasko, Robert Morasko and Ruth Watry, Unlocking the secrets to better board governance with the MGO system, July 2011.
<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>MARKET</td>
<td>0.0942</td>
<td>0.0398</td>
<td>2.3690</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.0197**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SMB</td>
<td>-0.0534</td>
<td>0.0722</td>
<td>-0.7394</td>
<td>0.4614</td>
</tr>
<tr>
<td>HML</td>
<td>0.1758</td>
<td>0.0697</td>
<td>2.5236</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.0131**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UMD</td>
<td>0.0420</td>
<td>0.0338</td>
<td>1.2421</td>
<td>0.2170</td>
</tr>
<tr>
<td>C</td>
<td>-0.0375</td>
<td>0.1519</td>
<td>-0.2468</td>
<td>0.8055</td>
</tr>
</tbody>
</table>

R-squared 13.53%  Adjusted R-squared 10.17%

Interpretation of the figures above: the strategy would outperform when markets are doing well (market beta positive and statistically significant), and outperform when value firms outperform growth firms (HML beta positive and significant). The strategy has no statistically significant correlation with momentum or size factors.

However, when we ran this regression for companies with a market cap greater than $10bn, we obtained a statistically significant positive alpha.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>MARKET</td>
<td>0.0444</td>
<td>0.0381</td>
<td>1.1670</td>
<td>0.2459</td>
</tr>
<tr>
<td>SMB</td>
<td>-0.0715</td>
<td>0.0692</td>
<td>-1.0335</td>
<td>0.3038</td>
</tr>
<tr>
<td>HML</td>
<td>0.1384</td>
<td>0.0667</td>
<td>2.0736</td>
<td>0.0406**</td>
</tr>
<tr>
<td>UMD</td>
<td>0.0021</td>
<td>0.0324</td>
<td>0.0644</td>
<td>0.9488</td>
</tr>
<tr>
<td>C</td>
<td>0.3851</td>
<td>0.1455</td>
<td>2.6464</td>
<td>0.0094***</td>
</tr>
</tbody>
</table>

R-squared 7.66%  Adj. R-squared 4.1%
Here, since the returns are monthly, it means that this strategy would give an outperformance of $0.3851 \times 12 = 4.62\%$ annually, which is quite impressive.

For each of these regressions we ran consistency checks by computing the median market beta, the median market cap, the median price-to-book and the median monthly returns for firms with no WoB and firms with at least 1 WoB, to make sure our results were right. For example, if come back to the 4-factor regression for all stocks mentioned above, we observe a positive market beta. If the median yearly market beta for firms with WoB is found to be on average higher than the median market beta for firms without WoB (for every year from 2006 to 2013) then it would mean that firms with WoB will outperform firms without WoB if the market is bullish (and vice-versa), thus double-checking our regression result.

We then decided to test this strategy within the 10 industries present in the sample. All the results from the 10 regressions were statistically insignificant except from the regression within the consumers staples sector that gave a negative alpha.

We also tried to test the strategy by splitting the data by region (Africa & Middle East, Asia, Australia & New Zealand, Central & Latin America, Eastern Europe, North America and Western Europe). We obtained only one statistically significant result; a positive alpha for the Asian region. Yet, we do not think this is enough of an argument to implement such a strategy because the results may have been biased due to a small sample size of Asian companies (among our 2400 stocks in the MSCI World Index). It may, however, also be due to the fact that so many Asian companies have zero WoB.

Lastly, we tried to eliminate the industry effect and the regional effect by running a cross-sectional regression. In order to do that, we used dummy variables for industries and for every region. The model was as follows:

$$2013 \text{ annualized return} = c + \beta_1 \times \text{WoB} + \beta_2 \times \text{market cap} + \beta_3 \times \text{P/B} + \beta_4 \times \text{industry dummies} + \beta_5 \times \text{country dummies} + \epsilon$$

Our results were consistent with the time-series analysis. We also observed that the more factors we added (size, country, industry), the more insignificant the WoB metric was.
c) Interpretation of regression results

The long/short women on board strategy did not give us any statistically significant results (except for companies with a market cap greater than $10bn). Moreover, there might be an issue of “critical mass” with this strategy, meaning that if women do not represent at least a certain percentage of the board, they might feel like a minority and this might be a limitation for them in implementing their ideas. An article by Jasmin Joecks, Kerstin Pull, and Karin Vetter, “Gender Diversity in the Boardroom and Firm Performance: What Exactly Constitutes a 'Critical Mass'?,” ⁸ sets that figure to 30%.

However, in investments, a portfolio manager hardly ever gets a positive and statistically significant alpha. It’s always about taking a bet at some point.

Yet, one has to wonder whether women on board is a good metric for gender diversity within a firm and if so whether it is good to consider it as the sole metric for gender diversity.

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2) Investing in firms with women in top management positions - a better strategy?

Extensive research has been conducted on this topic. It has been showed that firms with women in top management positions have been associated with better performance relative to male-only comparable companies. Catalyst’s “Why diversity matters” 9 paper lists most significant articles written after 2007 supporting this idea10.

In order to avoid redundancy, this paper will try support the existing results with real-life examples from testimonies heard during lectures and conferences, or those given by people encountered or interviewed.

a) Why WoB is a questionable metric, or at least, not sufficient to solely measure the impact women have on performance.

During our financial research project sponsored by Acadian Asset Management, we had the opportunity to meet with Marshall Carter11, who had done some research on the gender diversity topic, and who had looked closely at the women on board issue. This meeting helped us get some

9 Catalyst, Why Gender Diversity Matters, July 2013


11 Meeting with Marshall Carter, former CEO of State Street and chairman of NYSE Euronext, January 2015
useful insights. Among the topics discussed, we emphasized how a specific number of WoB does not have the same meaning in every industry, so taking it as a variable for a trading strategy might prove dangerous. Indeed, in male-dominated industries, having two women on board might mean the firms are conscious about gender diversity, whereas in female-dominated industries this figure might mean the opposite.

If we go even further, shouldn’t there be at least half female directors for industries for which the customer base is mainly female? (around 80% of Palmolive Colgate customers are women for instance and yet the board is far from having 80% female directors).

**When looking at whether a company is promoting women in corporate leadership, one would therefore need to consider the number of women on board relative to the customer base.**

Another important issue that should definitely be tackled when questioning whether women on board is the right metric for a firm’s gender diversity is the role these women play on the board. Indeed, some of them might just be figureheads.

**Therefore in testing whether a firm is promoting women leadership, we should look at whether these women are on the executive committee or other influential committees as opposed to just being figureheads.**

In other cases (and more specifically in cases of bad corporate governance), the board of directors in itself may have no impact and simply follow the CEO in his decisions. In some extreme cases, if asked, a board member might not even know if there are women on his board. So, WoB may not be a metric that would impact company performance. However, according to Sandy Moose\(^\text{12}\), who has extensive experience as Chairman of various for-profit and non-profit boards like the board of Verizon Communications or the Museum of Fine Arts in Boston, this is no longer true. Today, the board, instead of the CEO, is responsible for shaping the agenda of the meetings and materials are sent at least a week in advance so that directors come prepared to meetings. Moreover, attendance is now closely monitored and absence is reported to the SEC for publicly listed companies.

In questioning the relevance of the WoB metric, we could also mention the fact that oftentimes one woman, if very successful, will be highly sought-after by various boards wishing to have better gender quotas, and she might therefore sit on many of them, which might create a misleading metric. This

\(^{12}\) Lecture with Sandy Moose, former presiding director, member of audit committee and member of corporate governance & policy committee at Verizon Communications Inc.. Lecture given at MIT Sloan School of Management, Managing in adversity class, April 2015.
would not be as likely for their successful male-counterparts since they represent a larger sample (only 5% of CEOs in S&P 500 companies are female). However, according to Steve Miller\(^{13}\), chairman of AIG, the greater representation of men on boards can be explained by the fact that about 30 years ago business schools hardly had women graduates. In his opinion, the problem is self-resolving as business schools today have approximately a 50% female population and in the coming years the boards will naturally become more gender diverse. Nonetheless, we are examining the WoB strategy today and therefore we need to keep in mind that female directors may be less numerous and highly sought-after and thus sit on much more boards than their male counterparts.

**b) Why do women in top management positions drive stock performance?**

Therefore, some argue that the true metric for women leadership within a firm is not the number of women on board but rather the number of women in senior staff.

One reason to perceive women in senior management as a better metric then women on board is that women in the C-suite tend to impact operations and decision-making on a daily basis much more than directors. Sally Green\(^{14}\), former COO of the FED (Richmond) and Director at Cambridge Trust strongly agreed with this idea. Having occupied a C-suite position herself, she really stressed the fact that the top two executive managers of the Richmond branch (the CEO and herself) had considerable power when it came to shaping the branch’s activities.

**i) What the figures tell us**

Credit Suisse was the first one to examine strategies looking not only at women on board but also at women in senior management\(^{15}\). Similar to what they did for women on board, Credit Suisse used a universe of more than 3000 stocks (most likely the same stocks for which we received the women on board data for our Finance Research Practicum from Acadian

\[^{13}\text{Interview of Steve Miller, non-executive Chairman of AIG. Lecture given at MIT Sloan School of Management, Corporations at the Crossroads: the CEO Perspective class, April 2015.}\]

\[^{14}\text{Interview with Sally Green, April 2015.}\]

Asset Management, which in turn received it from Credit Suisse). For each stock, they identified the positions women occupied.

Here are some interesting results Credit Suisse found:

- Women "represent 12.9% of senior managers - CEOs and direct reports.
- Just 4% of companies covered by CS globally have a female CEO.
- Women have disproportionately high representation in functions with less responsibility and fewer chances for progression to top management and board the "Management Power Line".

Credit Suisse showed that since 2009, companies with more than 50% women in management outperformed the entire universe of 3000 stocks studied.

Performance of companies tiered by % of women in management and HOLT-screened

Other interesting results: women in senior management are on average associated with higher ROEs, Net Debt/Equity, Price to Book and Payout ratios as can be seen in the figure below:

Comparative returns for women in senior management

<table>
<thead>
<tr>
<th>Sector</th>
<th>ROE (%)</th>
<th>Net debt/equity (%)</th>
<th>Price/book</th>
<th>Payout ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CEO</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- male</td>
<td>11.9</td>
<td>43.7</td>
<td>2.33</td>
<td>39.7</td>
</tr>
<tr>
<td>- female</td>
<td>15.2</td>
<td>46.5</td>
<td>2.32</td>
<td>44</td>
</tr>
<tr>
<td>Premium</td>
<td>28%</td>
<td>22%</td>
<td>38%</td>
<td>11%</td>
</tr>
<tr>
<td><strong>CEO and Operations</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- women &lt; 5%</td>
<td>11.9</td>
<td>44.1</td>
<td>2.33</td>
<td>39</td>
</tr>
<tr>
<td>- women &gt; 10%</td>
<td>15.1</td>
<td>55.5</td>
<td>2.73</td>
<td>55.6</td>
</tr>
<tr>
<td>Premium</td>
<td>27%</td>
<td>26%</td>
<td>17%</td>
<td>42%</td>
</tr>
<tr>
<td><strong>Consumer discretionary</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- women &lt; 10%</td>
<td>11.1</td>
<td>38.1</td>
<td>1.96</td>
<td>26.5</td>
</tr>
<tr>
<td>- women &gt; 15%</td>
<td>14.7</td>
<td>80.1</td>
<td>2.77</td>
<td>36.4</td>
</tr>
<tr>
<td>Premium</td>
<td>32%</td>
<td>76%</td>
<td>6%</td>
<td>22%</td>
</tr>
<tr>
<td><strong>Consumer Staples</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- women &lt; 10%</td>
<td>13.4</td>
<td>31.3</td>
<td>3.2</td>
<td>60.2</td>
</tr>
<tr>
<td>- women &gt; 15%</td>
<td>18</td>
<td>54.8</td>
<td>3.40</td>
<td>48.3</td>
</tr>
<tr>
<td>Premium</td>
<td>34%</td>
<td>76%</td>
<td>6%</td>
<td>22%</td>
</tr>
<tr>
<td><strong>Energy</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- women &lt; 10%</td>
<td>11.4</td>
<td>41.4</td>
<td>1.96</td>
<td>47.8</td>
</tr>
<tr>
<td>- women &gt; 15%</td>
<td>11.3</td>
<td>29</td>
<td>2.05</td>
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</tr>
<tr>
<td>Premium</td>
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<td>-30%</td>
<td>10%</td>
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<td><strong>Financials</strong></td>
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<tr>
<td>- women &lt; 10%</td>
<td>8.3</td>
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<td>1.07</td>
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<tr>
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<td>11.8</td>
<td>NA</td>
<td>1.3</td>
<td>39.7</td>
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<tr>
<td>Premium</td>
<td>42%</td>
<td>NA</td>
<td>21%</td>
<td>16%</td>
</tr>
<tr>
<td><strong>Healthcare</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>- women &lt; 10%</td>
<td>13.1</td>
<td>21.9</td>
<td>3.61</td>
<td>36.1</td>
</tr>
<tr>
<td>- women &gt; 15%</td>
<td>17.5</td>
<td>49.4</td>
<td>4.2</td>
<td>57.2</td>
</tr>
<tr>
<td>Premium</td>
<td>34%</td>
<td>126%</td>
<td>16%</td>
<td>56%</td>
</tr>
</tbody>
</table>


Here, it would have been interesting to conduct the same research and run the same regressions as for the Finance Research Practicum sponsored by Acadian Asset Management, but for women in senior management instead of women on board. Unfortunately, we did not receive the necessary data for women in management from Credit Suisse (while we did for women on board).

However, Quantopian, a Boston-based trading platform, did something similar to our Finance Research Practicum (but for women CEOs instead of Women on Board). Quantopian too used the Credit Suisse findings as a starting point. They "pitted the performance of Fortune 1000 companies that had women CEOs between 2002 and 2014 against the S&P 500’s performance during that same period. The comparison showed that the 80 women CEOs during
those 12 years produced equity returns 226% better than the S&P 500. (Global nonprofit women’s issues researcher Catalyst compiled the list of women CEOs used in the simulation.)”  

Here, the figures seem to support the idea that women senior managers drive stock performance.

**ii) Trying to make sense of the quantitative results: some hypotheses and real-life examples**

Let’s try to understand why more women in senior management are associated with higher returns by presenting some commonly-accepted explanations or anecdotal explanations based on real-life examples.

An article from Fortune suggests that there is a common belief that women have to work harder than their male counterparts to arrive to a top management position in big Fortune 1000 companies and thus really represent “the cream of the crop”.

At a lecture Kevin O’Leary, also know as the “Mr.Wonderful” of the Shark Tank TV show, gave at MIT Sloan, he clearly stated that he believes women make better CEOs than men. When we asked him why, he simply answered that his personal experience had shown him that he made more money with the companies with women in top management. He believes women, by making better informed decisions, are less risky of an investment. To him, investing in firms with women CEOs is synonymous with lower risks for the same returns. As a result, 55% of the companies in his portfolio have women CEOs (a high figure if we compare it to the 5% companies with female CEOs within the S&P 500).

Investing in companies with women in senior staff is a good strategy if you look at the long-term. If there are only men in senior positions, it will make it harder for female colleagues to advance. For example, a male-employee could ask his boss to share his experiences and tell him more about his background over a drink after work, which might seem strange if it comes from a female employee. Therefore, when choosing her job, a freshly graduated and ambitious women might prefer a firm with women in senior positions, since she will think there are more networking opportunities. This example shows that firms with more women in top management positions attract more talent. And talent is synonymous with better returns.

16 [http://fortune.com/2015/03/03/women-led-companies-perform-three-times-better-than-the-sp-500/](http://fortune.com/2015/03/03/women-led-companies-perform-three-times-better-than-the-sp-500/)

17 [http://fortune.com/2015/03/03/women-led-companies-perform-three-times-better-than-the-sp-500/](http://fortune.com/2015/03/03/women-led-companies-perform-three-times-better-than-the-sp-500/)

18 Corporations at the Crossroads: the CEO Perspective, MIT Sloan School of Management, March 2015
Another example of women in senior management contributing to the hiring of talents is one Sally Green\textsuperscript{19} gave. During her tenure as COO of the FED in Richmond, she decided to post job offers simultaneously internally and externally and to be very transparent about it in order to enhance meritocracy. This measure was designed to prevent senior male executives from hiring other colleagues that resembled them (because it is usually easier to relate to people who are similar to you). Eventually, when Sally Green left the FED 7 years later, the senior staff was composed of 50% female executives.

From this perspective, the women in senior staff investment strategy is one that will work in the long-run, because it might take 10 to 30 years for the freshly graduated women to advance to the C-suite.

It is common knowledge that people tend to be looking for companies in which they identify with the senior management. This serves as an additional argument in supporting that having women in the C-suite will help the firms attract talent and enhance employee commitment. Moreover, if a “critical mass” for women in senior management is achieved, this might heighten their influence on the returns and other performance metrics. McKinsey\textsuperscript{20} found that it took about one-third women in senior staff to significantly increase a company’s score on the “organizational excellence” metric.

Therefore, when trying to assert whether a firm is truly committed to gender diversity, we need not only take into account the fact that there is a woman in the C-suite but also that there are more than a third of women in the senior staff. This idea is consistent with the Credit Suisse results which show that the more than 50% women in management tranche outperforms the other tranches with less women in management (see graph above).

Now that we have established that a gender-diverse senior management is a good way to attract talent and that female senior executives contribute to improving the firm’s “organizational excellence”, we will present a few hypotheses showing how, from a practical standpoint, they contribute to making their companies better.

It was shown that women took sustainability more into account than their male counterparts when conducting their businesses\textsuperscript{21}. The Morgan Stanley Institute for Sustainable Investing found that “Female investors are more interested in sustainable investing than male investors (76\% vs. 62%)”

\textsuperscript{19} Interview with Sally Green, April 2015.

and are more likely to consider sustainability in their consumer behavior (48% of female investors have done one or more sustainable consumer actions – such as checked product packaging to ensure sustainability, compared to 32% for male investors)”. One anecdotal example can illustrate this point. Indeed, we could look at the different position Denise Morrison\(^\text{22}\), CEO of Campbell Soup, and Kevin O’Leary\(^\text{23}\), Chairman of O’Leary Funds, adopt towards sustainable initiatives. Both of them were guest speakers for the same MIT Sloan class\(^\text{24}\) and students had the opportunity to interact with them. While Mr. O’Leary did not believe social good and business profits were compatible and thought his contribution to society should come through taxes once he made those profits, Mrs. Morrison was convinced that her company had a mission and duty to its employees and their social well-being. This is why she strongly advocated for Campbell’s program to energize Camden, one of America’s poorest cities where Campbell’s headquarters are located, by building neighborhood gardens and implementing a health and nutrition campaign for the surrounding community. Such a diverse and socially aware climate implies lower intent to leave from employees according to Catalyst\(^\text{25}\). These two opposing views are just one interesting example, although by no means statistically significant, that supports the idea that women tend to factor sustainability more when running their business.

There is another characteristic highly sought-after for running a business that has been observed in women mangers and seems to be less obvious for their male-counterparts. This quality is the ability to come to a consensus\(^\text{26}\). The article “More women = less gridlock” on the brookings website confirms the idea that women are better at coming to an agreement

\[^{21}\text{Morgan Stanley Institute for Sustainable Investing, Sustainable Signals: The Individual Investor Perspective (February 2015).}\]

\[^{22}\text{Lecture by Denise Morrison, CEO of Campbell Soup, Corporations at the Crossroads: the CEO Perspective, MIT Sloan School of Management, March 2015.}\]

\[^{23}\text{Lecture by Kevin O’Leary, Chairman of O’Leary Funds and “Shark” investor on ABC’s Shark tank TV show, Corporations at the Crossroads: the CEO Perspective, MIT Sloan School of Management, March 2015.}\]

\[^{24}\text{Corporations at the Crossroads: the CEO Perspective, MIT Sloan School of Management, March 2015.}\]

\[^{25}\text{Catalyst, Why Diversity Matters, July 2013.}\]

\[^{26}\text{American Express Open Forum, 5 ways women are better bosses than men, Barry Moltz (August 2013).}\]
(and thus are better politicians, but also better corporate leaders)\textsuperscript{27}, as does the chapter “Knowing Congress as a gendered institution”\textsuperscript{28}.

Now that we have tried to make sense of the figures and see how women make good top managers on a day-to-day basis with real-world examples and commonly accepted hypotheses, we will look at how these women make efforts to improve gender diversity and create a virtuous circle to sustain better performance (that, as we’ve seen, is related to a gender-diverse senior management) in the long-run.

In the past few years, many women clubs, societies and events have been created and organized. The Sloan Women in Management (SWIM) club, destined at creating a network of graduate women within MIT Sloan who would help each other academically and professionally, is one such example. Women initiatives are now taken within most of the Fortune 500 companies. And less formal networking exists as well. For instance, MIT Sloan organized a 10-student mainly female dinner with Denise Morrison where she would give advise for careers and tips for dealing with the “old boys club” and adapting to an all-male environment\textsuperscript{29}.

In order to sustain the on-average better performance of companies with more women in senior management, the companies need to make efforts to maintain their gender quotas. When looking for a good company committed to fostering gender diversity, we should look at whether the employee structure has changed since a woman joined the C-suite, as this would indicate whether the benefits of gender diversity will be upheld after this woman leaves the firm.

But, women are not only good at supporting other women. They have also been known to help other minorities within the corporate structure. For example, Joaquin Duato\textsuperscript{30}, Worldwide Chairman of Johnson & Johnson, described how key people who had helped him move up the management ladder have been women. When he was asked why women were the ones that had helped him most, he replied that because he was a Spaniard surrounded by Americans he was considered as an “outsider” which was also the case for women in senior staff, so they helped each other. The Catalyst

\textsuperscript{27} http://www.brookings.edu/blogs/fixgov/posts/2013/11/8-female-candidates-and-gridlock-jackman


\textsuperscript{29} Dinner with Denise Morrison, March 2015.

2013 paper “Why Diversity Matters” \textsuperscript{31} shows that having a nationality-diverse top management is positively correlated to performance.

\textbf{Therefore, when analyzing stocks, one needs to pay particular attention to companies with women senior managers who have promoted colleagues from different nationalities, as this can be correlated with better company returns.}

All these reasons and potential explanations seem to suggest that the “women in top management positions” is a better investment strategy than the “women on board” strategy. However, maybe the best strategy may actually be one that is a mix of the two.

c) \textbf{Not one best metric for gender diversity but a mix of gender diversity metrics.}

Catalyst, in the “Why Diversity Matters” \textsuperscript{32} paper writes that they’ve found “a clear and positive correlation between the percentage of women board directors in the past and the percentage of women corporate officers in the future. Additionally, women board directors appeared to have a greater effect on increasing the percentage of line positions held by women than they did on staff positions. Line experience is necessary for advancement into CEO and top leadership positions, and Catalyst’s annual Censuses show that historically women are underrepresented in these roles”. This only supports our ideas that the two metrics should be considered together instead of being seen as two competing ways of measuring gender-diversity.

\textsuperscript{31} Catalyst, Why Diversity Matters, July 2013.

\textsuperscript{32} Catalyst, Why Diversity Matters, July 2013.
3) Constructing a gender-diverse mutual fund

a) Investment policy

The purpose of this part is to construct a portfolio of the best 15 stocks which foster women leadership and have a considerable amount of female employees, senior managers or directors.

We have shown, through our own research and that of others, including Credit Suisse, Catalyst, or Quantopian, that the women on board, or women in the C-suite strategies could show statistically significant outperformance in certain case scenarios. We have also explained why we believed that having more women directors or in the C-suite would lead to longer-run outperformance. Now that we established all that, we want to look at the practical side of things.

In other words, if we are convinced that gender-diversity is a key driver for performance and if we suppose we have money to invest, which stocks would we choose?

i) Passive investing

If we had little knowledge of the investment world, or if we had little time to allocate to the study of a large universe of stocks, the most obvious answer would be to invest in an ETF indexed on the PAX Global Women’s Leadership Index. This index of around 400 stocks includes the companies that are considered the best for advancing women’s leadership worldwide. One striking thing about the index’s description and the way its constituent stocks were chosen is that it matches very closely the criteria for gender diversity we listed in the first two parts of the thesis.

On the PAX World Investments website, we can read the following about this index:

“The Pax Global Women’s Leadership Index is a customized index of the highest-rated companies in the world in advancing women, as rated by Pax World Gender Analytics, and that meet key environmental, social and governance (ESG) standards, as rated by MSCI ESG Research. Companies are rated by Pax World Gender Analytics based on multiple criteria of gender leadership, including:

- Representation by women on the board of directors
- Representation of women in executive management
- Woman CFOs
- Woman CEOs

33 found on the PAX World Investments website
• Whether they are signatories to the Women’s Empowerment Principles, a joint initiative of the UN Global Compact and UN Women.”

Moreover, the factors that are given most weight are representation of women on boards and in management, exactly the same criteria we focused on during the first two parts of the thesis.

The process for selecting stocks, as described on the index factsheet, is shown thereafter:\textsuperscript{34}:
Index Construction Process

MSCI World Index

Pax World refines universe using MSCI ESG Ratings

Pax Gender Analytics Team ranks companies according to 5 key gender criteria

Pax Global Women's Leadership Index
Approximately 400 constituents selected based on gender diversity and women's leadership
MSCI ESG Ratings

MSCI ESG Intangible Value Assessment (IVA) provides research, ratings, and analysis of companies’ financially material risks and opportunities arising from ESG factors. Companies are rated by MSCI ESG analysts on a seven point scale of AAA–CCC relative to the standards and performance of their industry peers.

MSCI ESG Impact Monitor (IM) uses more than 30 performance indicators to evaluate 5,000 companies, including all constituents of the MSCI ACWI Index, noting when companies breach global norms and conventions such as the UN Global Compact and ILO Core Conventions.**

Index Qualification Criteria

• Beginning Universe: MSCI World Index

• The Beginning Universe is pared down by excluding all companies with an MSCI IVA ranking of B or below or an MSCI IM score of less than one, resulting in the IVA/IM-Limited Universe.

• The IVA/IM-Limited Universe is ranked by applying Pax World Gender Analytics women’s leadership criteria. Based on these rankings, Pax Ellevate Management (the Adviser) selects the number of constituents as a result of proprietary evaluation testing to determine ideal index size, resulting in the Base Universe.

• Companies excluded from the Base Universe as a result of the application of Pax World Gender Analytics weighting criteria may nonetheless be included in the Index if the company has at least 30% women on their board of directors.

• Emerging market companies not included in the MSCI World Index, but which are constituents of the MSCI ACWI Index, and which the Adviser determines are leaders on gender equality, may be included in the Index. The weight of these companies in the Index is currently capped at 2%.

The list of index securities is provided to MSCI, which then performs a calculation based on market capitalization, resulting in the Pax Global Women’s Leadership Index.

Source: Index Factsheet, PAX World Investments, April 2015

Therefore, for retail investors without any specific investment management expertise, but with a strong belief that having women occupying top corporate positions is synonymous with outperformance, it would be best to invest in an index fund. One such fund is the PAX Ellevate Global Women’s Index fund, which invests in all of the components included in the index (but may under-or overweight a few stocks based on some gender characteristics in order to “achieve its investment objectives”.

So far, the fund has not outperformed the MSCI Global Index as shown in the figure below:
Data as of 03/31/2015.

<table>
<thead>
<tr>
<th>Monthly Total Returns</th>
<th>CUMULATIVE RETURNS (%)</th>
<th>AVERAGE ANNUAL RETURNS (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(as of 03/31/2015)</td>
<td>1 MONTH</td>
<td>3 MONTH</td>
</tr>
<tr>
<td>Pax Ellevate Global Women’s Index Fund - Individual Investor Class</td>
<td>-1.84</td>
<td>1.62</td>
</tr>
<tr>
<td>Pax Ellevate Global Women’s Index Fund - Institutional Class</td>
<td>-1.83</td>
<td>1.71</td>
</tr>
<tr>
<td>Pax Global Women’s Leadership (Net) Index</td>
<td>-2.06</td>
<td>1.35</td>
</tr>
<tr>
<td>MSCI World (Net) Index</td>
<td>-1.57</td>
<td>2.31</td>
</tr>
<tr>
<td>Lipper Global Large-Cap Core Funds Index</td>
<td>-1.44</td>
<td>1.32</td>
</tr>
</tbody>
</table>

*Institutional Class Inception date return since April 19, 2006 is 3.50 (annualized).

Source: PAX Ellevate Global Women’s Fund website

This is very intriguing since it seems to contradict the quantitative results we have obtained during our research on women on board investment strategies and the quantitative results Credit Suisse and Quantopian obtained on women in senior management and women CEOs strategies respectively.

To try to find an explanation to this phenomenon we need to look at what is different between the women on board and women in management investment strategies analyzed in the first two parts of the thesis and the index fund’s stock selection. For the index fund, the initial top-down screening (that narrows down the MSCI World universe) relies on ESG criteria (MSCI IVA and MSCI IM criteria). Therefore, it may be that firms that were in the highest tranches for women on board and women in management and contributed most to the outperformance of this tranche are in fact firms that do not meet the MSCI ESG criteria. For example, we saw that firms with more than 50% women in management have outperformed on average the entire universe since 2009. However, it may be that among these 50% WiM firms, the ones that had the best performance did not in fact meet the ESG criteria.

Therefore, a passive investor solely interested in gender investment strategies (but not ESG strategies in general) should keep that in mind and look for alternatives.

**ii) Active investing**

We want to go even further in our research. We want to test whether among universally good stocks, stocks that enhance women leadership outperform. Indeed, it is often said that women tend to be head of bad companies, so we want to show that if they are head of good companies, their firm will outperform. To put it differently, we would like to test whether a portfolio of universally good stocks selected from a universe of gender-diverse stocks would beat the other portfolios or equity funds in the market.
The starting point for this research was the MSCI ACWI PAX Global Women Equality Index. As previously mentioned, the criteria MSCI used to obtain 400+ stocks of the index is widely in line with what we discovered in the first two parts of the thesis. As for the concerns regarding the underperformance of the index fund vs. the outperformance of WoB and WiM strategies, we saw that it was likely caused by the fact that the PAX Global Women Index would only select companies that met its ESG criteria. However, we believe that if we are to select a portfolio of 15 best stocks, the latter would necessarily need to meet the ESG criteria to be considered as such in our opinion. Therefore, the index fund ESG bias is one we would have adopted anyway.

We thus concluded that the firms in the index would be considered as “the best firms for women leadership” in our view as well. Moreover, we needed a starting point and we preferred to focus on studying a few stocks in detail and to do that, we could not go through all stocks of the MSCI World index for instance. This is why we decided to build our portfolio from this universe.

**Part 1: Quantitative Screening**

To arrive to the final portfolio of 15 stocks, we first needed to conduct a quantitative screening. In order to do the screening, we had to define the criteria that we saw as important for a stock to be a good one.

The criteria are as follows:

1) High Return on Capital
2) High levered free cash flows
3) High normalized net income margins
4) Price/Earnings ratio that does not exceed the industry median
5) High Funds From Operations/Debt ratio

**1) High Return on Capital**

This criterion shows a company’s ability to allocate the capital it has in its possession to profitable investments. We initially considered looking at ROE (return on equity) but the problem is that this figure can be impacted by share buybacks and is thus not as representative as ROC.

**2) High levered free cash flows**

This criterion is important for a company to be able to invest in positive NPV project when it sees them. Also, unlike company earnings, it cannot be manipulated through accounting methods, and is thus a good measure of

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35 data obtained from MSCI during the Finance Research Project sponsored by Acadian Asset Management

36 data obtained from Capital IQ
true performance. Moreover, a company with a lot of levered FCF will be able to face crises situations better (will be less likely to go bankrupt since levered FCF means FCF after financial obligations have been met), and will compete efficiently in booming markets (because it will have enough cash to invest when opportunities arise).

3) High normalized net income margins
This percentage is useful for showing how much of the amount the company received from the customer is translated into actual profits (since this is what the investor is looking for).

4) Price/Earnings ratio that does not exceed the industry median
Usually high P/E ratios are associated with stocks that the market believes will grow. They tend to be associated with high ROCs and ROEs as well. However, in some cases like Facebook, a high P/E is associated with a low ROE which means the market expects the ROE to be much higher in the future. In cases like Amazon it also means that the company is reinvesting its cash for capital expenditure in order to grow. However, a P/E that is much higher than the industry average is, in our view rather synonymous with an overvalued stock and we therefore prefer to avoid these stocks with either a too high or a too low P/E relative to their peers.

5) High Funds From Operations (FFO) / Debt ratio
This ratio shows a company’s ability to meet its financial obligations using its operating income only.

Although these five factors are applicable to any company, their values can vary quite a lot according to the sector and industry the company is in. Therefore, to make things more comparable, we split the 426 stocks of the MSCI ACWI PAX Women Equality Index into 10 sectors (consumer discretionary, consumer staples, energy, financials, health care, industrials, information technology, materials, telecommunication services, and utilities) and conducted a quantitative screening based on our 5 criteria within each sector. Within each sector, we would try to end up with one selected stock for every 15 stocks approximately.

The quantitative screening:
A stock had to meet the following criteria:
- Have an ROC greater than or equal to the median of the firms in the index in that sector
- **AND** have levered free cash flows greater than or equal to the median of the firms in the index in that sector
- **AND** have normalized net income margin greater than or equal to the median of the firms in the index in that sector
- **AND** have P/E ratios approximately between sample sector median - 5
and sample sector median +5

- **AND** have FFO/Debt ratio greater than or equal to the median of the firms in the index in that sector

However, when this screening was too restrictive (i.e. provided zero companies), or when the results (especially the value of the sample sector median) were impacted by some missing data points, we allowed for some "sensible leeway". This is what helped us go from a sample of 426 stocks to a sample of 47 stocks (purely quantitative screening) to a sample of 28 stocks (quantitative screening but with some discretion). Here is an example for the consumer staples sector.

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Return on Capital % [LTM]</th>
<th>Normalized Net Income Margin % [LTM]</th>
<th>Levered Free Cash Flow [LTM] ($USDmm, Historical rate)</th>
<th>P/LTM Normalized EPS [Latest] (x)</th>
<th>FFO to Total Debt [LTM]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colgate-Palmolive Co. (NYSE:CL)</td>
<td>33,4</td>
<td>14,2</td>
<td>2 357,3</td>
<td>26,0</td>
<td>0,536</td>
</tr>
<tr>
<td>Kimberly-Clark Corporation (NYSE:KMB)</td>
<td>22,3</td>
<td>9,48</td>
<td>2 322,3</td>
<td>22,5</td>
<td>0,311</td>
</tr>
<tr>
<td>Unilever NV (ENXTAM:UNA)</td>
<td>18,5</td>
<td>9,16</td>
<td>4 711,0</td>
<td>26,8</td>
<td>0,436</td>
</tr>
</tbody>
</table>

**Part 2: Stock-Picking**

The stock-picking starts with the following 28 stocks:

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Return on Capital % [LTM]</th>
<th>Normalized Net Income Margin % [LTM]</th>
<th>Levered Free Cash Flow [LTM] ($USDmm, Historical rate)</th>
<th>P/LTM Normalized EPS [Latest] (x)</th>
<th>FFO to Total Debt [LTM]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment AB Kinnevik (OM:KINV B)</td>
<td>16,8</td>
<td>58,6</td>
<td>1 496,5</td>
<td>6,38</td>
<td>0,82</td>
</tr>
<tr>
<td>Gilead Sciences Inc. (NasdaqGS:GILD)</td>
<td>41,9</td>
<td>38,4</td>
<td>9 215,6</td>
<td>17,9</td>
<td>1,03</td>
</tr>
</tbody>
</table>

37 descriptions of the companies come from Capital IQ
<table>
<thead>
<tr>
<th>Company</th>
<th>Value 1</th>
<th>Value 2</th>
<th>Value 3</th>
<th>Value 4</th>
<th>Value 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>MasterCard Incorporated</td>
<td>40,2</td>
<td>33,5</td>
<td>3 280,3</td>
<td>33,4</td>
<td>2,22</td>
</tr>
<tr>
<td>Biogen Inc. (NasdaqGS:BIIB)</td>
<td>25,0</td>
<td>26,8</td>
<td>2 791,0</td>
<td>34,9</td>
<td>6,12</td>
</tr>
<tr>
<td>Deutsche Boerse AG (XTRA:DB1)</td>
<td>10,7</td>
<td>24,4</td>
<td>1 090,4</td>
<td>23,6</td>
<td>0,34</td>
</tr>
<tr>
<td>Potash Corp. of Saskatchewan, Inc. (TSX:POT)</td>
<td>9,93</td>
<td>21,0</td>
<td>674,1</td>
<td>21,7</td>
<td>0,61</td>
</tr>
<tr>
<td>Eaton Vance Corp. (NYSE:EV)</td>
<td>18,7</td>
<td>20,3</td>
<td>902,8</td>
<td>17,7</td>
<td>0,28</td>
</tr>
<tr>
<td>Aberdeen Asset Management PLC (LSE:ADN)</td>
<td>13,7</td>
<td>19,8</td>
<td>744,3</td>
<td>26,8</td>
<td>-</td>
</tr>
<tr>
<td>Microsoft Corporation (NasdaqGS:MSFT)</td>
<td>15,2</td>
<td>18,3</td>
<td>23 363,1</td>
<td>23,0</td>
<td>0,99</td>
</tr>
<tr>
<td>Kumba Iron Ore Ltd. (JSE:KIO)</td>
<td>36,0</td>
<td>17,4</td>
<td>455,2</td>
<td>6,2</td>
<td>1,81</td>
</tr>
<tr>
<td>Vodacom Group Limited (JSE:VOD)</td>
<td>32,1</td>
<td>15,1</td>
<td>935,8</td>
<td>19,0</td>
<td>1,19</td>
</tr>
<tr>
<td>The Walt Disney Company (NYSE:DIS)</td>
<td>11,9</td>
<td>14,8</td>
<td>6 148,6</td>
<td>25,9</td>
<td>0,63</td>
</tr>
<tr>
<td>Colgate-Palmolive Co. (NYSE:CL)</td>
<td>33,4</td>
<td>14,2</td>
<td>2 357,3</td>
<td>26,0</td>
<td>0,53</td>
</tr>
<tr>
<td>Gjensidige Forsikring ASA (OB:GJF)</td>
<td>9,76</td>
<td>13,3</td>
<td>560,5</td>
<td>19,7</td>
<td>0,29</td>
</tr>
<tr>
<td>Statoil ASA (OB:STL)</td>
<td>12,7</td>
<td>12,5</td>
<td>5 470,4</td>
<td>6,56</td>
<td>0,54</td>
</tr>
<tr>
<td>Next Plc (LSE:NXT)</td>
<td>44,3</td>
<td>12,2</td>
<td>625,4</td>
<td>22,7</td>
<td>0,87</td>
</tr>
<tr>
<td>National Grid plc (LSE:NG.)</td>
<td>5,83</td>
<td>12,0</td>
<td>1 126,6</td>
<td>19,5</td>
<td>0,17</td>
</tr>
<tr>
<td>Tryg A/S (CPSE:TRYG)</td>
<td>15,1</td>
<td>11,7</td>
<td>259,6</td>
<td>20,7</td>
<td>0,43</td>
</tr>
</tbody>
</table>
Here are the descriptions from Capital IQ for every 28 stocks (In blue the selected stocks) \(^3\)

In the consumer discretionary sector:

- **The Walt Disney Company (NYSE:DIS)**

  "The Walt Disney Co. is a leading media conglomerate with key operations in theme parks, television, filmed entertainment and merchandise licensing."

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38 descriptions of the companies come from Capital IQ
Theme Parks and Resorts (31% of FY 13 (Sep.) revenues and 21% of EBIT) includes the company's best known assets: Disney World and Disneyland parks in Orlando, FL, and Anaheim, CA, respectively; the Disney Cruise Line; Euro Disney, Paris (39%-owned); and Hong Kong Disneyland (43%-owned). The company plans to open another park in mainland China (Shanghai) by 2016.”

- The TJX Companies, Inc. (NYSE:TJX)

“With over $23 billion in annual revenues, TJX Companies is the largest U.S. off-price family apparel and home fashion retailer. As of February 1, 2014, the company's core Marmaxx Group division operated 1,079 T.J. Maxx stores, 942 Marshalls stores, four Sierra Trading Post stores, sierratradingpost.com, and tjmaxx.com. TJX also operated 450 HomeGoods in the U.S.; 28 HomeSense and 371 T.K. Maxx stores and tkmaxx.com in Europe; and 91 HomeSense, 227 Winners and 27 Marshalls stores in Canada.”

- Next Plc (LSE:NXT)

“Next Plc is one of the UK’s largest clothing retailers. The group has nearly 550 stores in U.K. and Ireland, and more than 100 franchises globally”.

- The Gap, Inc. (NYSE:GPS)

“Gap, Inc. is a specialty retailer that operates stores selling casual apparel, accessories, and personal care products for men, women and children. As of February 1, 2014, it operated 3,539 stores: 968 Gap North America; 596 Banana Republic North America; 1,004 Old Navy North America; 193 Gap Europe; 228 Gap Asia; 43 Banana Republic Asia; 11 Banana Republic Europe; 18 Old Navy Asia; 65 Athleta North America; one Piperlime North America; and 37 Intermix North America, with 37.2 million sq. ft. of total retail space. Another 375 stores were franchised”.

In the consumer staples sector:

- Colgate-Palmolive Co. (NYSE:CL)

“Colgate-Palmolive Co. is a leading global consumer products company that operates in the oral, personal and household care and pet food markets. Its products are marketed in more than 200 countries and territories worldwide.
The company's Oral, Personal and Home Care segment accounted for 87% of CL's total worldwide sales in 2013. The balance of revenues was derived from the Pet Foods segment. The company's oral care products include toothbrushes, toothpaste and pharmaceutical products for oral health professionals. CL's personal care products include bar and liquid soaps, shampoos, conditioners, deodorants, antiperspirants, and shave products. The home care business produces major brands such as Palmolive and Ajax soaps”.

- **Kimberly-Clark Corporation (NYSE:KMB)**

“Kimberly-Clark, best known for brands such as Kleenex, Scott, Huggies and Kotex, sells consumer and other products in more than 150 countries. After operating as a broadly diversified enterprise, KMB made a major transition beginning in the early 1990s, transforming itself into a global consumer products company. The company further developed its health care business through the acquisitions of Technol Medical Products, Ballard Medical Products, and Safeskin Corp. Reflecting more than 30 strategic acquisitions and 20 strategic divestitures since 1992, KMB has become a leading global manufacturer of tissue, personal care and health care products, manufactured in 38 countries”.

- **Unilever NV (ENXTAM:UNA)**

“Today, Unilever is a leading global supplier of consumer goods across a wide range of food, home and personal products categories. In 2013, the group had sales of EUR49.8 billion and a "core operating margin" (a Unilever-defined measure that includes restructuring costs but excludes other exceptional items) of 14.1%. The group's foods businesses, accounting for 46% of sales and 52% of operating profit in 2013, consist of two broad product areas: Foods (savory, dressings and spreads) and Refreshment (ice cream and beverages). Major brands include Knorr, Bertolli, Hellmann's, Country Crock, Becel, Flora, SlimFast, Lipton, Breyers, Ben & Jerry's, Klondike, Popsicle and Heartbrand. Unilever believes it is the global leader in the savory and dressings, spreads, weight management, tea-based beverages and ice cream categories”.

In the energy sector:

- **Statoil ASA (OB:STL)**

“Statoil is an upstream international Oil and Gas Company based in Norway. The world’s leading deep offshore operator, principally in the Norwegian Continental Shelf”.

39 descriptions of the companies come from Capital IQ
In the financials sector:

- **3i Group plc (LSE:ILLI)**

“3i Group Plc is a private equity and venture capital firm specializing in private equity, buyouts, venture capital, and growth capital investments”.

- **Aberdeen Asset Management PLC (LSE:ADN)**

“Aberdeen Asset Management PLC is a publicly owned investment manager with approximately £75.6 billion ($148.11 billion) in assets under management”.

- **Deutsche Boerse AG (XTRA:DB1)**

“Deutsche Boerse AG is an international financial marketplace operator providing a variety of stock exchange introduction, trading, and operational services”.

- **Eaton Vance Corp. (NYSE:EV)**

“Eaton Vance is engaged in the business of creating, marketing and managing open-end and closed-end funds and providing investment management and counseling services to high-net-worth individuals and institutions. The company believes it is a market leader in a number of investment areas, such as tax-managed equity, value equity, equity income, floating-rate bank loan, municipal bond, investment grade, and high-yield bond investing. Its goal is to offer fund shareholders attractive risk-adjusted returns over the long term”.

- **Gjensidige Forsikring ASA (OB:GJF)**

“Gjensidige Forsikring ASA primarily offers general insurance products. It offers property insurance, including home, holiday home, and private contents; cars and motorcycles insurance; accident and health insurance; travel and other insurance; agricultural insurance; general liability insurance; marine/transport insurance; and change-of-ownership insurance to private

40 descriptions of the companies come from Capital IQ
and commercial markets in Latvia, Sweden, Denmark, Lithuania, Estonia, and Norway”.

- **The Travelers Companies, Inc. (NYSE:TRV)**

“The Travelers Companies (TRV) is a leading property-casualty underwriter. Net written premiums of $23.9 billion in 2014 (versus $22.8 billion in 2013) were divided as follows: Business and International Insurance 61%; Personal Lines 30%; and Bond and Specialty Insurance for the remaining 9%. The Business and International Insurance segment offers a broad array of coverages distributed through a broad network of independent brokers and agencies in the U.S. Business Insurance net written premiums of $14.6 billion in 2014 were divided as follows: commercial multi-peril 21%, workers' compensation 26%, commercial automobile 13%, commercial property 12%, international 14%, and general liability and other 14%”.

- **Tryg A/S (CPSE:TRYG)**

“Tryg A/S, together with its subsidiaries, provides general insurance products for private individuals, small and medium sized businesses, and corporate customers in Denmark, Norway, Finland, and Sweden. The company has strategic partnership agreement with Nordea and AXA corporate solutions”.

In the health care sector:

- **Biogen Inc. (NasdaqGS:BIIB)**

“Formed through the 2003 merger of IDEC Pharmaceuticals and Biogen, Biogen Idec researches, develops and markets therapeutics to treat cancer and autoimmune diseases. BIIB’s core franchise has been in autoimmune disorder multiple sclerosis, led by Avonex, approved by the U.S. Food and Drug Administration (FDA) in 1996 to treat relapsing multiple sclerosis (MS), and in Europe in 1997. Avonex sales were $3.0 billion in 2013, up 3.5% from $2.9 billion in 2013. Recent growth has been largely driven by price increases, as prescription growth has moderated. A new Avonex method of use patent issued in 2009 expires in 2026, extending a prior 2013 deadline. In May 2010, BIIB filed a patent infringement lawsuit against rivals marketing similar beta interferons like Avonex, seeking sales royalties. A pen delivery method was made available in April 2012”.

41 descriptions of the companies come from Capital IQ
- **Gilead Sciences Inc. (NasdaqGS:GILD)**

"Gilead Sciences (GILD) focuses on the research, development, and marketing of anti-infective medications, with a primary focus on treatments for HIV. GILD has a leading market position in treating HIV virus. Truvada, approved in 2004, is a once-daily combination tablet formulated with previous-generation drugs Viread and Emtriva. Viread was approved in 2001. Truvada generated 2013 sales of $3.136 billion, slightly below 2012 sales of $3.18 billion. Viread is also used for treating hepatitis B, and saw 13% sales growth to $959 million in 2013 from $849 million in 2012. In 2006, GILD and Bristol-Myers Squibb (BMY) launched Atripla, a combination tablet with Truvada and BMY's Sustiva. Atripla generated 2013 sales of $3.65 billion up 2% from 2012 sales of $3.58 billion. Atripla received EU approval in December 2007".

**In the industrials sector:**

- **Honeywell International Inc. (NYSE:HON)**

"Honeywell International Inc., an aerospace and industrial conglomerate with approximately $40 billion in 2014 revenues. It conducts business through four operating segments. HON generated about 41% of sales from products sold outside of the U.S. in 2014, primarily in Europe, Asia and Latin America. Sales to the U.S. government accounted for 9% of the total in 2013, while sales to the U.S. Defense Department (a subset of government sales) were 7% of the total".

- **Lockheed Martin Corporation (NYSE:LMT)**

"With 2014 sales of $45.6 billion, Lockheed Martin is the world's largest military weapons maker. In 2014, the company derived 79% of its net sales from the U.S. government, including the Department of Defense (DoD) as well as non-DoD agencies. Sales to foreign governments contributed 20% of net sales, with 1% of net sales to commercial and other customers. Lockheed Martin conducts business through five operating segments: Aeronautics; Missiles & Fire Control (MFC); Mission Systems & Training (MST); Space Systems; and Information Systems & Global Solutions (IS&GS)".

- **Southwest Airlines Co. (NYSE:LUV)**

"Southwest Airlines was the largest provider of scheduled domestic passenger air travel in the U.S. in 2013. Overall, the airline ranks as the fourth largest in U.S., based on total revenue passenger miles (RPMs). At

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42 descriptions of the companies come from Capital IQ
January 27, 2014, it served 96 cities in 41 states and the District of Columbia, as well as Puerto Rico, and five nearby international countries through its wholly owned subsidiary AirTran. LUV specializes in low-fare, point-to-point, short-haul, high-frequency service. Although 80% of its work force belongs to unions, the company believes that it has generally enjoyed harmonious labor relations. On January 27, LUV announced new service to Aruba, the Bahamas and Jamaica, its first ever international destinations not served by AirTran.

- **United Technologies Corporation (NYSE:UTX)**

“United Technologies is a multi-industry holding company that conducts business through five segments: Otis; UTC Climate, Controls & Security; Pratt & Whitney; UTC Aerospace Systems; and Sikorsky. Otis (20% of 2014 segment sales) is the world's largest maker of elevators and escalators. Otis designs, manufactures, sells, installs, maintains and modernizes a wide range of passenger and freight elevators for low-, medium- and high-speed applications, as well as a broad line of escalators and moving walkways. International revenues were 81% of total segment revenues in 2014.”

In the information technology sector:

- **MasterCard Incorporated (NYSE:MA)**

“MasterCard Incorporated (MA), a leading global payment solutions company, provides a variety of services in support of the credit, debit and related payment programs of about 22,000 financial institutions and other types of entities. MA follows a three-tiered business model as a franchisor, processor and adviser. The company, through its businesses, develops and markets payment solutions, processes payment transactions, and provides consulting services to its customers and merchants. MA manages a family of payment card brands, including MasterCard, Maestro and Cirrus, which it licenses to its customers”.

- **Microsoft Corporation (NasdaqGS:MSFT)**

“Microsoft is the world's largest software maker, primarily as a result of its near-monopoly position in desktop operating systems and its Office productivity suite. The combination of these two strongholds poses a formidable barrier to entry for competitors, in our opinion. MSFT has used the strong cash flows from these businesses to fund research and development of other markets, including enterprise servers, home entertainment consoles and Internet online advertising”.
In the materials sector:

- **Kumba Iron Ore Ltd. (JSE:KIO)**

“Kumba Iron Ore Ltd. Engages in the exploration, extraction, benefication, marketing, sale and shipping of iron ore in South Africa. The company’s flagship project is the Sishen mine, which is located in Northern Cape Province, South Africa. It also exports its iron ore to China, Japan, India, and South Korea, as well as countries in Europe and the Mena region”.

- **Potash Corp. of Saskatchewan, Inc. (TSX:POT)**

“This Canadian company, the world's largest diversified fertilizer company by capacity, is one of the world's largest potash producers. Potash Corporation of Saskatchewan is the world's largest integrated fertilizer and related industrial and feed products company by capacity. It is the largest producer of potash world-wide by capacity. POT estimates that its potash operations represented 20% of global capacity, its nitrogen operations 2%, and phosphate operations 3%. Foreign sales represented 36.5% of total 2014 revenues”.

In the telecommunication services sector:

- **Vodacom Group Limited (JSE:VOD)**

“Vodacom Group Limited operates cellular networks in South Africa and internationally. The company provides voice, messaging, data, and converged services to approximately 60 million customers covering individual and enterprise customers, which include large corporates, small and medium enterprises, and public entities. It offers Internet, financial, and convenience and security solutions, as well as apps for phone; Web hosting, dedicated hosting, and hosted CRM solutions; and mobile voice and data services”.

In the utilities sector:

- **National Grid plc (LSE:NG.)**

“National Grid (NG) is a UK utility that owns and operates regulated electricity and gas networks in the UK and the US and has non-regulated

43 descriptions of the companies come from Capital IQ
interests that include metering, interconnectors, property and the Grain LNG terminal. It comprises four divisions: UK Transmission (FY 13:29% of sales), UK Gas Distribution (12%), US Regulated (55%), and Other Activities (4%). We believe NGG has a low risk business model as regulated tariffs account for 95% of revenues and non-regulated long-term contracts 5%”.

- **Tenaga Nasional Berhad (KLSE:TENAGA)** 

“Tenaga Nasional Berhad (TENA, MYX: 5347) is the largest Electric utility company in Malaysia and also the largest power company in Southeast Asia with MYR 99.03 billion worth of assets. It serves over 8.4 million customers[1] throughout Peninsular Malaysia and also the eastern state of Sabah through Sabah Electricity Sdn Bhd. TNB’s core activities are in the generation, transmission and distribution of electricity. Other activities include repairing, testing and maintaining power plants, providing engineering, procurement and construction services for power plants related products, assembling and manufacturing high voltage switchgears, coal mining and trading. Operations are carried out in Malaysia, Mauritius, Pakistan, India and Indonesia”.

To come up with the final portfolio we chose the stocks based on a mix of gender criteria and industry specific criteria. For the gender criteria, we particularly liked firms with women CFOs since we believe it’s a key position (especially for companies with a big portfolio of brands or with a focus on low-cost) and sometimes women CIOs (if we saw information and technology as a strategic issue). Also, for the companies with a market cap greater than $10bn, we particularly like a number of WoB greater than or equal to 2.

**Consumer discretionary:**

- **The Walt Disney Company (NYSE:DIS): BUY.** It’s always best to choose the number one, especially in the changing media industry, because it is the least likely to fail and the most likely to adapt to changes (which can be confirmed by the recent innovative trend within the company, with new products like Frozen that suggest Disney is going to stay number one for long).

  **Gender criteria we like:** 3 women on board (total of 16 board members and market cap greater than $10bn) including Sheryl Sandberg in the

44 descriptions of the companies come from Capital IQ
nominating and corporate governance committee.

- **Next Plc: BUY.** Next is less present abroad (mainly present in the UK), has greater expansion potential and higher ROE and ROC (over the past 3 years on average) than GAP or TJX, which is particularly important in the retail industry. There are high barriers to entry because the brick-and-mortar aspect represents a big part of the business. Moreover, there is a larger amount of recurring revenue for clothing than for furniture for instance (TJX has a furniture segment). Despite the stagnant UK consumer demand, which represents Next’s largest market, it managed to have good results (as we can see on the following graph).

<table>
<thead>
<tr>
<th>Past Growth Rate (%)</th>
<th>1Year</th>
<th>3Years</th>
<th>5Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>6.95</td>
<td>16.24</td>
<td>17.42</td>
</tr>
<tr>
<td>Net Income</td>
<td>14.77</td>
<td>33.69</td>
<td>74.38</td>
</tr>
</tbody>
</table>

**Ratio Analysis (Annual Avg.)**

<table>
<thead>
<tr>
<th></th>
<th>1Year</th>
<th>3Years</th>
<th>5Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Margin (%)</td>
<td>15.87</td>
<td>14.98</td>
<td>14.18</td>
</tr>
<tr>
<td>% LT Debt to Capitalization</td>
<td>-8.53</td>
<td>-10.17</td>
<td>-12.10</td>
</tr>
<tr>
<td>Return on Equity (%)</td>
<td>208.75</td>
<td>200.76</td>
<td>201.63</td>
</tr>
</tbody>
</table>

This makes use think that Next has more growth potential to expand abroad than Gap or TJX (local same-store growth being limited and likely to stay so).

**Gender criteria we like:** 3 of the 5 top executives are women and 4 out of 10 directors are women (market cap greater than $10bn).

**Consumer staples:**

- **Kimberly-Clark: BUY.** It has only 37% of sales coming from emerging markets vs. 53% for Colgate-Palmolive and 60% for Unilever, therefore it has more international expansion potential. Moreover, the benefits from its cost saving program are likely to be enjoyed in the coming years.

  **Gender criteria we like:** the CFO is a woman and we believe being a CFO in a company with such a wide range of brands is a key strategic position (M&A activity, strategic acquisitions in emerging markets etc...).

**Energy:**
- **Statoil: BUY.** The best player that the quantitative screening found, and we want a portfolio diversified across all industries.

  Gender criteria we like: 4 women on board (which is impressive for the energy sector because it’s the sector with least women on board since 2010)\(^{45}\). Moreover, the company has a market cap greater than $10bn.

**Financials:**

- **Aberdeen Asset Management: BUY.** We believe that with the recovery, top asset managers will experience inflows, especially in their equity funds. We prefer Aberdeen to other less famous asset managers as we believe that brand image and portfolio manager reputation is key in this industry.

  Gender criteria we like: 3 WoB, including one on the compensation committee (although market cap is only $9bn).

- **Deutsche Boerse: BUY.** Although many fear that trading is dying off because of the over-burdensome regulations, we believe that technology-related solutions will be key to overcoming this obstacle (and Deutsche Boerse is renowned for its technological capabilities). We also believe that there is room for a lot of innovation in this space. Moreover, Deutsche Boerse can take advantage of some of the regulations like the shifting of derivatives clearing to regulated exchanges thanks to its “vertically integrated model” (S&P Capital IQ analyst report).

  Gender criteria we like: 3 WoB (market cap greater than $10bn) and a woman Chief Information Officer (which can become a strategic position in the context of technology-related solutions mentioned above).

- **Eaton Vance Corp.: BUY.** Its competitive edge relative to other asset managers is that it will offer the innovative exchange-traded managed fund (between an ETF and an actively managed fund, which enables the firm to not be obligated to disclose holdings daily like for ETFs).

Gender criteria we like: A woman is CFO and 2 out of the 7 board members are women.

Health care:
- **Biogen Inc.** and **Gilead Sciences Inc.:** BUY. The quantitative screening gave strong figures for the two biotechnology companies. We are positive on both of these as the US FDA is seemingly more accommodating to new drug approvals according to S&P. Moreover, there is little redundancy between the drugs both companies specialize in. Indeed, Gilead focuses on anti-infective medication and HIV treatment while Biogen is working on multiple-sclerosis treatment, non-Hodgkin's lymphoma and rheumatoid arthritis. This gives our portfolio some diversification within the biotech sub-sector.

  Gender criteria we like: 3 female directors for Biogen (market cap >$10bn), including 2 in the compensation committee, and a female CFO for Gilead Sciences.

Industrials:
- **Southwest Airlines:** BUY. The passenger demand is expected to increase and thus the low-cost carrier is likely to be even more attractive. It will also benefit from new innovative sources of revenues such as ancillary revenues (free things that can be charged) that passengers do not take into account when booking their flight. Moreover, the industry has recently consolidated (from 9 to 4 players), which makes the remaining players profitable. Southwest Airlines’ executive compensation strategy promotes profitability rather than growth, which aligns with the strategy to minimize costs and gives the company a competitive edge.

  Gender criteria we like: the CFO is a woman, which is a position all the more important in this cost-intensive industry (focus on low-cost, playing on ancillary revenues etc...)

- **Lockheed Martin:** BUY. Although the consensus leans towards a decreased military spending, the geopolitical tensions in the Middle-East suggest otherwise. And, again, like for Walt Disney, it’s always good to have the best player in the field, as it will be the most unlikely to fail.

  Gender criteria we like: the CEO is a woman (and she is also a director at Catalyst) ad she used to be COO of the Electronics system. Moreover, the Chief Technology Officer is also a woman (needless to stress the key role of technology at Lockheed).

- Honeywell and United Technologies: The Airbus/Boeing duopoly might
change because of Chinese competition, which would change the landscape. And competition from emerging markets might also prove to be a challenge for Honeywell and United Technologies despite the high barriers to entry. We therefore remain neutral on these two.

Information Technology:
- **Microsoft**: *BUY*. It is particularly important in the IT sector to choose big players because “a good company will always recover”. We did not select MasterCard on the other hand because the digital payment business will likely face strong competition from foreign players like Alipay, or, and this is more worrying, from app developers (e.g.: the “Cash” App, a free app enabling phone user to user instantaneous payments). All this is likely to drive profitability margins down for MasterCard.

  **Gender criteria we like**: the CFO is a woman.

Materials:
- **Kumba Iron Ore**: *BUY*. Although the outlook on the steel industry seems bleak, we believe that this particular player will be able to take advantage of the forecasted increased volume of steel shipped (due to the higher GDP, increase in auto constructions...). This is because Kumba has impressive financial & operating metrics (see table below), including a low P/E ratio, which is particularly valuable in this industry (because when the industry is cyclical and has little growth opportunities, a low P/E is particularly valuable).

**Capital IQ Company Screening Report**

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Return on Capital % [LTM]</th>
<th>Normalized Net Income Margin % [LTM]</th>
<th>Levered Free Cash Flow [LTM] ($USDm, Historical rate)</th>
<th>P/LTM Normalized EPS [Latest] (x)</th>
<th>FFO to Total Debt [LTM]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kumba Iron Ore Ltd.  (JSE:KIO)</td>
<td>36.0</td>
<td>17.4</td>
<td>455.2</td>
<td>6.2</td>
<td>1.81</td>
</tr>
</tbody>
</table>

  **Gender criteria we like**: 2 out of 10 directors are female (although
market cap is around $4bn) which is well above the average in the materials sector (that is among the top 3 sectors with least female representation at the board level) 46.

**Telecommunication services:**

- **Vodacom Group Limited:** Our quantitative screening gave a stock that we believe is the best in the sector.
  
  **Gender criteria we like:** 3 out of 12 women board members (market cap greater than $10bn).

**Utilities:**

- **Tenaga Nasional Berhad:** **BUY.** Here, we chose among the two remaining companies based on the regions they were operating in. Indeed, we see stronger regulatory pressure in the US and Europe vs. Malaysia (where Tenaga operates and where the government announced it was going to allocate money to make up for the higher fuel costs of the beginning of 2014 that impacted Tenega adversely).
  
  **Gender criteria we like:** 3 female directors and a market cap greater than $10bn (in a company operating in a country where the dominant religion is Islam, although Malaysia has one of the highest rates of female participation in management) 47.

**Conclusion**

Going forward, now that we have these 15 stocks, the idea would be to look at their performance relative to the MSCI PAX Women Index but also, most importantly, relative to the MSCI World Index and relative to the universe of Global Equity portfolios.

Simply out of curiosity (and once we have already selected the 15 stocks so as to avoid any bias) we looked at the portfolio’s 1 year, 3 years and 5 years performance relative to the MSCI World Index and obtained the following graphs:

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It is important to mention that our belief is that this strategy will work on the long run. We did not undertake the research from a short-run perspective or select stocks based on temporary undervaluation. In fact, it is only possible to think about this the women in corporate leadership strategy in a longer time frame, as we expect that having more women role models will contribute to a greater and authentic gender-diversity in the corporate world.

Source: Capital IQ
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