Principles for Responsible Investment

Fiona Reynolds, Managing Director
Principles for Responsible Investment, 25 Camperdown Street, London, E1 8DZ
E: fiona.reynolds@unpri.org | T: +44 (0) 20 3714 3189

Dear Rt. Hon. Nicky Morgan, MP

Cc: Kate Green, MP

Re: Corporate Reporting on Gender Diversity

About PRI

The United Nations-supported Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI represents 1400 signatories globally with $60 trillion in assets under management. In the UK, where the PRI is headquartered, there are 216 signatories with over $9 trillion in assets under management. PRI is proud to be a partner for the Sustainable Stock Exchanges initiative. This year, on International Women's Day, Stock Exchanges around the world, including the London Stock Exchange, hosted bell-ringing ceremonies in support of gender equality.

Summary of PRI's response

Institutional investors universally seek better risk adjusted returns. There is growing evidence that higher representation of women in senior management and company board roles leads to improved company profitability. There is clear evidence that improved disclosure and dialogue between investors and companies on ESG issues also improves company performance. Therefore it is PRI's view that increased information on gender pay levels will help investors to understand how an organisation develops and retains talent at all levels, developing a pipeline of female talent, which will improve company performance in this area, and ultimately contribute to improved risk adjusted investment returns. We welcome the steps taken by the Government to ensure gender pay transparency. We encourage you to work with leading institutional investors to ensure that they are aware, and making use of the new disclosures on gender pay.

Evidence for PRI's conclusions

The body of evidence demonstrating that gender is relevant to corporate financial performance, and hence to investors, continues to grow. A recent study of global businesses by the Peterson Institute for Economics noted that, for profitable firms, increasing the share of women in corporate leadership from none to 30% translated to a typical profitability increase of 15%[1]. Analysis from Grant Thornton suggests

[1] Peterson Institute for Economics (2016): *Is Gender Diversity Profitable?*

that FTSE 350 companies are suffering an opportunity cost of the equivalent of 2.5% of GDP by failing to put in place fully diverse Boards[2].

Despite this evidence, the numbers of women reaching senior leadership positions is low. Board diversity is the result of long-term, inclusive talent development. Research from Credit Suisse[3] finds that in the UK, women represent just 15.9% of Senior Management roles, with higher representation amongst roles with less influence and lower prospects for career progression. For the same group of companies, just 5.1% of CEOs are women. When appointing directors, many firms look to the C-Suite to find suitable candidates.

Progress is being made, but it is not sufficient. The five year summary of the Women on Boards (Davies) Review, published in October 2015, noted significant progress in the number of women appointed to the Boards of UK companies. This reflects the actions of highly committed groups and individuals, including the UK chapter of the 30% club, whose 27 investor members collectively manage £11tn. The Davies review itself notes that considerable work remains to ensure women are represented in senior management, and to ensure a more consistent and active interest from investors in gender diversity – if activated, the broader investment community could be a stronger force for positive change.

We see evidence of investor interest in gender diversity growing from a low base. A 2015 survey conducted by Hermes Investment Managers[4] found that just 23% of institutional investors feel that gender diversity at Board level is important. But a recent study examining investor priorities in the Sustainable Development Goals tells a different story. The Sustainable Development Goals, adopted in 2015, set a blueprint for sustainable, inclusive economic development between now and 2030. SDG 5 – achieve gender equality and empower all women and girls - includes an explicit target to "ensure full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life". Research from PRI and ShareAction[5], due to be released in March 2016, identifies SDG 5 as one of the highest priority areas for investors. This is an area that PRI expects to conduct further work in future.

We welcome the steps taken by the Government to ensure gender pay transparency. We encourage you to work with leading institutional investors to ensure that they are aware, and making use of the new disclosures on gender pay. PRI has experience convening investors on a range of ESG issues and would welcome the opportunity to discuss this further with you.

Yours sincerely,

Fiona Reynolds

Managing Director

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[2] Grant Thornton (2015): *Women in business: the value of diversity*

[3] Credit Suisse Research Institute (2014) *The CS Gender 3000: Women in Senior Management*

[4] Hermes Investment Managers (2015): *Responsible Capitalism and Diversity*

[5] ShareAction (Forthcoming): *Transforming our World through Investment*

About the Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance issues and to support signatories in integrating these issues into investment and ownership decisions.

The six Principles were developed by investors and are supported by the UN. They are voluntary and aspirational, offering a menu of possible actions for incorporating ESG issues into investment practices. In implementing the Principles, signatories contribute to developing a more sustainable global financial system.

The Six Principles

1. We will incorporate ESG issues into investment analysis and decision-making processes.

2. We will be active owners and incorporate ESG issues into our ownership policies and practices.

3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.

4. We will promote acceptance and implementation of the Principles within the investment industry.

5. We will work together to enhance our effectiveness in implementing the Principles.

6. We will each report on our activities and progress towards implementing the Principles.