Corporations are painfully slow at adding women to their boards despite a plethora of academic research about the benefits of gender diversity within groups. The main question for investors, however, is whether the presence of women on boards improves stock performance. To answer this question, we evaluated the companies in the S&P 500 Index in 2006 and tracked their performance for 10 years.

Our research found that the presence of women on boards did make a difference in stock performance over the 10-year period. Companies with zero women on their boards underperformed those with one or more woman and, to a greater extent, underperformed companies with more than 25 percent female board members. These findings mirror the results of the Credit Suisse Research Institute’s CS Gender 3000 report, which measured similar results in more than 3,000 global companies.

Historical Context
For the first 144 years of the United States of America, women were not considered citizens with the right to vote. Only 40 years ago were unmarried women granted the right to obtain credit on their own. Job protection during 12 weeks of unpaid maternity leave was granted as recently as the 1990s. Today, women make up half of the workforce, are the breadwinners in four out of 10 families, and earn more college and graduate degrees than men.

Yet the gender pay gap remains, with women earning only 80 cents for every dollar earned by men. American women have made progress in their participation in society, but progress is slow. The presence of women on corporate boards of directors is an indication of this slow progress. In 2016, fewer than 15 percent of board members were women.

Research Methodology
Our research began with the 501 stocks in the S&P 500 Index as of December 31, 2005. We eliminated companies that experienced mergers, acquisitions, bankruptcies, or any other corporate action that prohibited them from having a 10-year track record of performance between January 2006 and December 2015. There were 340 companies remaining in the universe.

We reviewed the 2005 Annual 10-K report for each company to identify the members of the board and their gender. The average number of women on each board was 1.8, and the average percentage of board members who were women was 14.06 percent.

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Table 1: Market Capitalization Breakdown by Portfolio

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>Average Market Cap ($B)</th>
<th>Median Market Cap ($B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zero WOB</td>
<td>10.33</td>
<td>7.99</td>
</tr>
<tr>
<td>1+ WOB</td>
<td>28.67</td>
<td>13.40</td>
</tr>
<tr>
<td>25%+ WOB</td>
<td>33.50</td>
<td>15.55</td>
</tr>
</tbody>
</table>

Table 2: Women on Board Statistics by Portfolio

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>Average # of WOB</th>
<th>Average % WOB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zero WOB</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>1+ WOB</td>
<td>1.99</td>
<td>15.54%</td>
</tr>
<tr>
<td>25%+ WOB</td>
<td>3.79</td>
<td>29.48%</td>
</tr>
</tbody>
</table>

Table 3: Sector Breakdown by Portfolio

<table>
<thead>
<tr>
<th>Sector</th>
<th>Zero WOB</th>
<th>1+ WOB</th>
<th>25%+ WOB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Discretionary</td>
<td>12.12%</td>
<td>17.26%</td>
<td>17.65%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>0.00%</td>
<td>9.77%</td>
<td>20.59%</td>
</tr>
<tr>
<td>Energy</td>
<td>15.15%</td>
<td>5.54%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Financials</td>
<td>18.18%</td>
<td>16.29%</td>
<td>11.76%</td>
</tr>
<tr>
<td>Health Care</td>
<td>3.03%</td>
<td>10.42%</td>
<td>17.65%</td>
</tr>
<tr>
<td>Industrials</td>
<td>15.15%</td>
<td>15.31%</td>
<td>17.65%</td>
</tr>
<tr>
<td>Technology</td>
<td>24.24%</td>
<td>11.07%</td>
<td>8.82%</td>
</tr>
<tr>
<td>Basic Materials</td>
<td>6.06%</td>
<td>5.86%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>0.00%</td>
<td>1.95%</td>
<td>2.94%</td>
</tr>
<tr>
<td>Utilities</td>
<td>6.06%</td>
<td>6.51%</td>
<td>2.94%</td>
</tr>
</tbody>
</table>
Portfolios with Varied Gender Representation

Of the remaining 340 companies, 33 companies had zero women on the board (WOB), 307 companies had one or more WOB, and 34 companies had 25 percent or more WOB. We created three hypothetical portfolios from these groups of companies: Zero WOB, 1+ WOB, and 25%+ WOB (see tables 1 and 2). In each portfolio, the companies were purchased at equal weight. The portfolios were rebalanced annually.

The small-cap premium factor suggests that zero WOB should outperform the other two portfolios. With an average market cap of $33.5 billion, 25%+ WOB would be expected to have a difficult time outperforming the other two portfolios, each of which has a smaller market-cap average.

The sector allocations of each portfolio reveal details about the types of companies that have more women on their boards (see table 3). For Zero WOB, there were no consumer staples or telecommunications companies represented. For 25%+ WOB there were no energy or basic materials companies. The lack of women on boards in energy and materials persists. Credit Suisse found that 47.4 percent of global materials companies and 46.7 percent of energy companies had zero women directors in 2013.4

The consumer discretionary, consumer staples, and healthcare sectors are overweight in 25% WOB.

One interesting note is that Apple Computer, one of the best-performing stocks during the period, was one of the 33 companies with zero women on the board in 2005. Despite Apple Computer’s exceptional performance, the Zero WOB portfolio significantly underperformed the other two portfolios (see figure 1 and table 4).

Detailed Findings

Figure 1 and table 4 show that the portfolio of companies with one or more WOB outperformed the portfolio with zero women on the board. Meanwhile, the portfolio of companies with 25%+ WOB outperformed the portfolio of companies with one or more WOB.

Another Look: Sector Neutral

We questioned whether the sector weightings of the three portfolios had an effect on performance. If, for example, health care was the best-performing sector during the analysis, might the 25%+ WOB portfolio have an advantage merely by sector overweight?

Figure 2 shows the performance of the sectors over the analysis period. The top performers were consumer discretionary, consumer staples, and health care. The poorest performers were financials, energy, and materials.
Financials were by far the worst-performing sector, with a −1.00-percent return over 10 years. This may have contributed to Zero WOB’s weak performance. Likewise, 25%+ WOB had high weightings in consumer discretionary, consumer staples, and health care, the three best-performing sectors.

We deepened our analysis by reconstructing our portfolios as sector-neutral portfolios, matching the sector weight of the S&P 500 Index at the end of the previous calendar year. When a sector weighting was zero, we used a sector exchanged-traded fund (ETF) as a proxy for the sector in the portfolio. Table 5 shows the S&P 500 sector weightings for each year of the analysis.

Data show that the 10-year performance results were similar for the sector-neutral portfolios (see table 6). The 25%+ WOB portfolio outperformed 1+ WOB, and both portfolios outperformed Zero WOB, even when controlling for sector exposure.

The persistence of outperformance, particularly for 25%+ WOB, is compelling, despite the narrowing of returns. A Catalyst report found that companies where three or more women served on the board for a sustained period of time significantly outperformed those with sustained low representation of women on their boards.5

The stock performance results from our research support the Catalyst findings because our portfolio with 25%+ WOB significantly outperformed the other two portfolios (see table 6).

Where Are They Today?
The gender diversity of the boards of the companies we studied has changed over time. Of the 33 companies with zero women on their boards in 2005, only two companies have zero women on their boards today. In fact, 10 of those 33 companies now have more than 25 percent women on their boards. The majority of these female directors were added in the past five years. More than 72 percent of the female directors we tracked became board members after 2010. The 34 companies in the 25%+ WOB portfolio overall maintained their levels of WOB, with some losing ground on female board representation and some gaining ground (see table 7).

Today more companies are focused on adding women to their boards, but diversity percentages may change due to director retirements or resignations. A further analysis accounting for the dynamic changes in gender diversity on boards would be a next step in identifying the persistence toward more gender diversity.

Opportunities for Investment
Investing with a gender lens may take several forms. These include private investments in companies led by female entrepreneurs, and any investment made in companies to produce products or services that benefit women and girls. Our research addresses the form of gender-lens investing involving the purchase of stocks of companies with more women in leadership.

Despite our research and others linking gender diversity in leadership with stronger company performance, few investment options currently leverage this gender-lens strategy. There are rules-based strategies that use separately managed accounts, in addition to a handful of index-based, gender-lens strategies available through mutual funds or ETFs. Each investment opportunity uses a different methodology, with some including factors of corporate economic characteristics. We believe the gender lens should become a critical component of environmental, social, and governance (ESG)-based investing in the future.
Investors increasingly are interested in strategies that align their investments with their values. In 2016, it is estimated more than $8.72 trillion was invested in sustainable, responsible, and impact investing (SRI). Rating agencies such as MSCI are assigning ESG ratings to individual companies. Among the factors in these ratings is the gender diversity of boards of directors. We encourage investment managers to look beyond board composition and to consider the gender mix of executive leadership as well. Almost 1,500 global companies have signed the United Nations Women’s Empowerment Principles. These companies pledge to “empower women in the workplace, marketplace and community” by supporting and advancing female employees at all levels of their organization.

Conclusion

Does the presence of women on boards signal superior stock performance for a company? The data suggest the answer is yes—gender diversity of boards was associated with higher returns in our analysis. One question we did not answer, however, is about the causality of the link between gender-diverse boards and stock performance. Do women directors create better companies, or do great companies have women directors? Perhaps this is an unanswerable question. But for investors, it may not matter. Board gender diversity is associated with higher stock performance, and investors would be wise to pay attention.

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Endnotes


Disclaimers:

Backtesting was used in calculating how certain types of portfolios would have performed. Backtesting involves a hypothetical reconstruction, based on past market data, of what the performance of a particular account would have been had the adviser been managing the account using a particular investment strategy. Performance results presented do not represent actual trading using client assets but were achieved through retroactive application of a strategy that was designed with the benefit of hindsight.

Backtested performance results have inherent limitations, particularly the fact that these results do not represent actual trading and may not reflect the impact that material economic and market factors might have placed on the adviser’s decision-making if the firm were actually managing the client’s money. These results should not be viewed as indicative of the adviser’s skill and do not reflect the performance results that were achieved by any particular client. During this period, the adviser was not providing advice using this strategy, and clients’ results were materially different.

Historical performance results for the Russell 3000 Index do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment-management fee, the inaccuracy of which would have the effect of decreasing historical performance results. Short-term results are much less reliable than results from a longer time frame.

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