

RESONSIBLE INVESTMENT

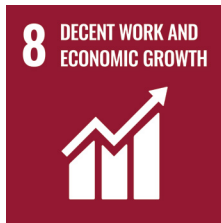
# Raising the bar on gender diversity



*Across Quilter we have identified three thematic engagement priorities. This is part of our human rights theme.*

Human rights are rights inherent to all human beings, regardless of race, sex, nationality, ethnicity, language, religion, or any other status. Human rights include the right to life and liberty, freedom from slavery and torture, freedom of opinion and expression, the right to work and education, and many more. Everyone is entitled to these rights, without discrimination<sup>1</sup>.

## SDG Alignment



**“** *The moral and business case for gender diversity is watertight. But the job is far from done. As we emerge from the pandemic, there’s more that needs to be done to dismantle the barriers that prevent women rising to the top. Businesses have a vital role to play in achieving a more inclusive economy, where work enables all talent to progress.*

FTSE Women Leaders Review: Achieving Gender Balance, February 2022

<sup>1</sup> United Nations

In early 2022, the UK Government announced that the country ranked second in the world for board gender diversity with almost 40% of board positions in the largest 100 companies held by women, up from just 13% ten years ago. The number of women chairs in the largest 350 UK companies rose to 48 from 39 in 2020.

This is significant progress driven, in part, by the government-commissioned 2016 Hampton-Alexander review, which recommended a target of 33% representation of women on listed board and leadership teams by 2020. This year, the FTSE Women Leaders Review, the successor to the Hampton-Alexander Review, has presented new recommendations including a minimum of 40% female representation. It also calls for the largest 350 companies to have at least one woman in the chair, Senior Independent Director, CEO or CFO role by 2025. These aims are also supported by the FCA's new listing requirements, where companies must declare if they have met these specific board diversity targets in their annual financial reports.

In preparation for the step-up in recommendations, we have engaged with investee companies within our centrally monitored universe that have yet to meet the initial target of 33% gender diversity. The aim of this engagement was to encourage progress and understand what measures are being taken to meet the update proposals over the next three years. Most of the companies engaged are based in the UK, but with similar proposals being implemented by the EU we also included Kion Group, a German-listed company.

## Target companies

**KION**  
GROUP

 **ocado**

**sage**

**RENISHAW**  
apply innovation™

**WHITBREAD**

 **United  
Utilities**

**WEIR**

Unsurprisingly, our conversations varied in detail, commitment, and outcome. Listed below are our key findings:

- **Board-level progress but the executive is still a problem.** The recent progress in improving board gender diversity is not echoed at the executive level. Of all the companies engaged, United Utilities is the only one with a female executive director. This is reflected in the broader market with only ten women in CEO roles across the largest 250 UK companies<sup>2</sup>. There is also concern that hiring for non-executive roles is depleting the executive talent pool as qualified women opted for non-executive over executive roles earlier in their careers. Most companies are confident in meeting the 33% board gender diversity goal over the next 12 months, with Kion Group the only outlier. Germany, however, seems to be behind the largest European economies on achieving diverse leadership.
- **Building the internal talent pipeline is essential.** Most of the companies we engaged with are in sectors that rely on STEM (Science, Technology, Engineering and Mathematics) skilled workforces. These companies often highlight the difficulties in overcoming the challenges of growing internal female talent pipelines. Typically, senior leadership hires are internal, which contributes to the executive hiring problem above. Several companies have made significant efforts to bring in diverse candidates at graduate and apprentice level, and to provide ongoing support through management mentoring schemes. United Utilities, for example, has made significant strides in supporting and quantifying progress. Internally, its 'Aspiring Talent' programme is focused on areas where there has been persistent under-representation of female leaders. Externally, the company works with recruitment agencies that focus on diverse hiring and runs an 'Engineering your future' competition with secondary schools from the local area. Conversely, a minority of companies do not yet have a targeted approach.
- **Engineering and basic materials firms are laggards.** There are a number of reasons for this, including the hiring difficulties of a traditionally male-dominated industry. Firms like Renishaw and Kion Group are making efforts to get up to speed but appear to be behind the pack. Where the talent pool (board, executive or broader employees base) is weighted towards men, we would expect an outsized effort through hiring and progression programmes.
- **Most companies are clear on the benefits of diversity.** It is encouraging that most companies are clear on the benefits of improving board and executive-level diversity, as well as diversity among their wider workforce. Improved diversity of ideas and perspectives facilitating a more dynamic business culture is a driving rationale for change.
- **Diversity strategies must be owned by the board of directors.** Companies that tend to perform poorly have often relied on voluntary diversity committees or initiatives. To drive real change, commitment must be demonstrated at the top of an organisation and embedded into all aspects of hiring and retention strategies.

<sup>2</sup> As of 10 January 2022: <https://www.gov.uk/government/news/sea-change-in-uk-boardrooms-as-women-make-up-nearly-40-of-ftse-100-top-table-roles>

Overall, we are encouraged by the progress of the companies we engaged with, particularly at a board level. Our engagement emphasises the need to expand our focus from the board to the executive and senior management. Going forward, we will monitor progress in target setting and achievement over the next 12-18 months and use voting rights to express disapproval for companies that fail to make sufficient progress.

We believe that diversity of perspectives and ideas allows for a more robust governance structure and dynamic leadership team. We also appreciate that single diversity statistics are a narrow way to measure diverse and inclusive corporate cultures. Nevertheless, they are a good place to start the conversation. Recent UK and EU commitments to gender balance are certainly a tail wind for the engagement effort and investors have role to play in encouraging companies to meet this expectation in a meaningful and timely manner.

Quilter Cheviot is committed to engaging with companies to meet best practice standards on board and leadership diversity. All companies we engaged, except one, are in industries with typically male-dominated workforces. As investors, we are seeking confidence that they have a robust strategy to develop, attract and retain the best talent throughout the organisation and outperform peers on a relative basis. We have outlined our expectations that an explicit focus on diversity must be a key component of this strategy.



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