

Interview with Portfolio Managers Julie Bech and Audhild Aabø

Nordea 1 – Global Gender Diversity Fund

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Please note that the conference call occurred on the 22nd of July 2020. All market commentary and information refers to the period before then

Key takeaways

- A diverse culture contributes to business success: For example, a wider talent pool of employees, improved staff retention and more innovation.
- Being proactive in implementing measures on diversity is a major aspect of remaining competitive in today's world.
- We look for sustainable companies at the forefront of gender diversity, which display strong business fundamentals and growth outlooks.
- As investors we can make a difference. We can support a more fair and equal society by investing in the companies succeeding in creating equal opportunities for everyone.

Why is gender diversity important for companies?

Put simply, we believe there is a correlation between a company's level of gender diversity and its success – which is supported by growing amounts of research. Human capital is a key factor behind a company's profitability, and it is difficult for a competitor to copy the skills of outstanding employees. A company able to expand its recruitment base will have an edge on the competition. In addition to this, diversity is quite often a result of an inclusive and supportive business culture. A positive corporate culture fosters different perspectives and promotes collaboration, while avoiding serious pitfalls such as groupthink.



What are the obstacles to improved gender diversity?

While many companies acknowledge the benefits of diversity, we are a long way from gender parity. Even in Scandinavia, a region often recognised for its high degree of gender diversity, there is still a way to go. One obstacle to be combatted is hidden biases. This is a type of unconscious attitude towards people, which can be extremely detrimental in the recruiting process and ultimately lead to a lack of diversity. An example of this can be seen in how the composition of top musicians has changed over the years. The common perception for some time was that the best musicians were men, which meant few women made the world's best orchestras. In the 1950s, the Boston Symphony Orchestra conducted a blind audition experiment in an effort to increase the number of women within its orchestra. All musicians played behind a screen and the decision makers had no idea of the performer's gender, which ultimately enabled more women to make it through. By the 1970s, many other orchestras adopted this approach.

A more complex obstacle is the fact corporations often express difficulty in finding qualified candidates of the minority gender when recruiting for higher managerial positions – even though in places like Scandinavia the higher education split has been close to 50/50 for many years. This means we are losing valuable talent along the way. This is also reflected in several studies, which show the percentage of women decreases each level up in the hierarchy. This issue might require governmental incentives to facilitate equal participation for both genders. However, companies must also increase focus on internal talent development, to ensure there are qualified candidates of both genders at each level of the hierarchy. We do believe corporations are starting to realise this and are implementing necessary changes. These are the companies we are looking to unearth.

Can you provide an example of a company at the forefront of gender diversity?

One notable example is tech giant Microsoft. There are five women and seven men on the board of Microsoft – which meets our criteria for gender diversity. Many tech firms have come under scrutiny for gender discrimination, but Microsoft has been proactive to improve in this area over recent years, such as providing enterprise-wide diversity training. In our view, having a diverse team is crucial in driving innovation. In addition to gender diversity, we also look at ESG. Microsoft is a solid performer in relation to privacy and data security, while it continuously attracts the industry's best talent by offering a strong combination of pay and benefits and professional development. Microsoft is also committed to becoming carbon negative in 2030 and removing its historical carbon emissions by 2050.

Microsoft is one of 1,400 global companies that meet our standards of gender diversity and ESG. Through the use of quantitative tools, we then systematically narrow our universe to about 350 companies that offer the most attractive risk/reward. The next step is to undertake additional assessment of gender data, including developing a 'Gender Diversity Score', as well as bottom-up fundamental analysis of the company.

Do you believe the establishment of gender diversity strategies, like ours at Nordea, will ultimately help increase diversity in the corporate world in the future?

Without a doubt. If we look at the more established ESG parameters, especially within the environmental area, it was not too long ago that capital markets showed a limited interest in sustainable investment, with green funds and impact investments suffering from a poor reputation in terms of performance. Similarly, companies did not pay much attention to those factors, especially from an investor relations perspective. However, as the population became more aware of the world's environmental challenges, demand for sustainable solutions from across the investor spectrum grew rapidly. As a result, the best ESG companies witnessed a repricing, while sustainable companies also found it much easier to raise capital in equity markets. The cost of capital in debt markets is also lower for the sustainable companies – as companies have increasingly realised.

While companies are acutely aware of sustainability factors, often most of the emphasis remains on the environmental elements and less on social and governance. As understanding of sustainability evolves, we expect more focus to be paid on the non-environmental ESG factors – such as diversity. Like we saw with environmental considerations, capital will become more readily available for companies leading the way in diversity. Again, more and more companies will realise this and intensify efforts to address this issue.

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