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Investing in Gender Equality

A practitioner's perspective on gender lens investing and the construction of gender inclusive investment portfolios

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Unconscious behavioral biases influence everything from where people live to how they invest. A recent study conducted by USC's Viterbi School of Engineering, for instance, exposed gender bias in films through a linguistic analysis of nearly 1,000 movie scripts. The researchers found that not only are female characters under-represented in popular films (by a nearly two-to-five ratio), but the dialogue of female characters is often ancillary to the movie's plot.[1] Another study showed that women are also less likely than men to have an identifiable job or to be portrayed as a leader.[2] These gender imbalances may not always be perceptible from one movie to the next, but they nonetheless shape social perceptions of what it means to behave "like a man" or "like a woman."

Recognition of these biases has led to the creation of new mechanisms that can influence and change outcomes. A new ratings system, to name one, was recently developed that identifies whether visual media contain positive gender representations.[3] It's only a start, but this growing awareness would seem to be shaping viewer preferences, as the proportion of female protagonists in the top-100 domestic grossing films reached a historical high in 2016.[4]

Gender inequality is an all-too-familiar social injustice in need of new solutions. The attention around female representation in the film industry runs parallel to the movement in finance regarding women in the global economy. Similar to Hollywood, Wall Street is recognizing that gender awareness coupled with deliberate and intentional action can change behaviors and improve outcomes. This movement in finance seeks to reframe investment analysis to recognize gender as an absolutely critical factor—one that uncovers compelling opportunities and lays bare unseen risks. As author and investor Jackie VanderBrug has described it, "investing with a gender lens is a world-changing idea that is both powerful and profitable."[5]

This paper will outline the business dynamics of gender and the basic methods of integrating gender into financial analysis. It will then explore the various types of gender investment strategies currently available in the market, before closing with guidance on how these various practices come together in the context of an investment portfolio.

Defining the Field: Gender Lens and Gender Inclusive Investing

Investors have developed different words to describe the practice of integrating gender into their investments. Gender is a word that refers to a socially, as well as a biologically-constructed identity. There are male and female genders in every society and the National Organization of Women supports the acronym LGBTQIA (Lesbian Gay Bisexual Transgender Queer Intersexual Asexual) as the most inclusive language for people with non-mainstream gender and sexual identity.[6] While there are explicit issues that face people with non-mainstream gender identities, gender lens investing is typically associated with efforts to combat bias against women and promote both gender equality and women's empowerment.

Gender lens investing refers to the process of blending gender analysis with financial analysis as part of the investment decision-making process.[7] Before deploying capital, gender lens investors make sure to evaluate the gender-related attributes of an investment alongside its financial characteristics. These changes in process are key to avoiding the influence of unconscious biases.

Gender inclusive investment strategies and portfolios may seek to empower women by increasing their access to capital, facilitating workplace equity, or by creating new services and products.

Just as lenses in a telescope can allow us to see galaxies light years away, a gender lens can be used to see, more clearly, a distant vision of a more gender inclusive society. Gender inclusive strategies are designed around theories of change, or action and outcome relationships, that target gender issues. Gender inclusive investment strategies and portfolios may seek to empower women by increasing their access to capital, facilitating workplace equity, or by creating new services and products designed to meet the distinct needs of women.[8] These investment strategies seek to actively drive change and then measure the impact of these efforts against stated social goals.

The Call to Action

Throughout history and across the globe, gender has been a key determinant in the distribution of social and economic opportunity. Women comprise 50% of the global population, but have far less representation in many key cross-sections of society. The statistics can be alarming:

- In the United States, women who worked year-round in 2016 earned an average of 80 cents for every dollar men earned. The pay gap has improved since 1960, when women earned just 60 cents on the dollar, but unless the pace of progress accelerates, pay parity will not be reached until 2059.[9]

- Estimates from the World Economic Forum and the Food and Agriculture Organization suggest that while women are responsible for producing the majority of the world's food, they only own between 10% and 20% of the land.[10]

- Some women are subject to such oppressive gender regimes that they are forced into marriage or even slavery. Of the 40 million people who were victims of modern slavery in 2016, 71% were either women or girls, many of whom were forced laborers in the commercial sex industry.[11]

Over the past 40 years, the world has gradually awakened to the social, economic, and moral consequences of gender inequality. The United Nations (UN), in particular, has been a leading proponent of women's rights, galvanizing businesses, governments, and individual citizens into action. In 2015, the UN recognized the importance of gender equality by making it one of the 17 Sustainable Development Goals (SDGs). Goal 5 commits the world to "achieve gender equality and empower all women and girls" by "providing women and girls with equal access to education, health care, decent work, and representation in political and economic decision-making processes [that] will fuel sustainable economies and benefit societies and humanity at large."[12]

Gender equality is not only a moral obligation, it also represents a massive business and investment opportunity.

Perhaps most significantly, the UN recognized that the pursuit of gender equality is also a "pre-condition" for the achievement of the 16 other SDGs.[13] The success of global development efforts depends on women being fully engaged, which means they must be given the opportunity to reach their full potential. A key source of optimism is the fact that achieving gender equality is not only a moral obligation, but also represents a massive business and investment opportunity.

The Business Case

The McKinsey Global Institute forecasted that reaching global gender parity would add as much as $28 trillion annually to the global GDP by 2025.

Several of the world's leading business and financial institutions have published studies in the past several years highlighting the potential economic returns available from greater gender equality. The McKinsey Global Institute, a division of one of the world's leading consulting firms, forecasted that reaching global gender parity would add as much as $28 trillion annually to the global GDP by 2025.[14] Goldman Sachs, a leading global investment bank, has called investing in women and girls "one of the highest return opportunities available in the developing world."[15] The bank describes a virtuous cycle in which investments in education result in increased participation in the labor force. This then translates into a "double dividend" as a higher proportion of women's earnings, versus those of their male counterparts, is more likely to go toward improving their family's welfare, which then empowers the next generation.[16]

Opportunities also exist in the world of finance. Gender diversity initiatives have been shown to improve corporate performance. In a 2011 report, the non-profit Catalyst found that companies with "sustained high representation of [women board directors]," which they defined as three or more women serving for at least four of five years, generated returns on equity that were nearly 5 percentage points higher than companies with no women on their boards.[17] This is some of the most compelling research in support of the benefits of gender inclusion.

Reporting on the hedge fund industry, the Financial Times published an article in March 2017 noting that while "hedge funds run by women have outperformed a broader benchmark of alternative investment managers over the past five years," only one in twenty hedge funds employ a female portfolio manager.[18] The data might suggest women are better fund managers than men, but it also appears they face higher hurdles when raising capital. As a result, only the best female managers survive in the industry long enough to make it into the data.[19] Researchers at Northeastern University confirmed these results in a 2015 study of hedge fund returns from 1994 to 2013.[20] It may be surprising to some, but female hedge fund managers are indeed just as competitive as male hedge fund managers.

Implementing a Gender Lens

The data makes clear that gender bias is responsible for major inefficiencies in the way economies and markets function. For those investors focused solely on maximizing risk-adjusted financial return, adopting a gender lens is an investment best practice that can help identify avoidable risks and profit from overlooked opportunities. For others, gender lens investing is part of a broader commitment to promote gender equality. There are a number of steps investors can take to implement a gender lens that will satisfy both of these objectives.

Introspection

Implementing a gender lens begins with introspection. The pervasive nature of gender norms means that investors may themselves be subject to certain biases and women are not immune. In June 2017, the Harvard Business Review reported on an innovative study examining the role of gender bias in the venture capital industry. Using linguistic analysis of a series of pitch meetings held between entrepreneurs and venture capitalists, the researchers found that the venture capitalists, regardless of gender, "tended to ask [male entrepreneurs] about the potential for gains and [female entrepreneurs] about the potential for losses."[21] Using statistical analysis, they found that the bias in these questions fully explained the relationship between the amount of funding an entrepreneur received and his or her gender.[22]

Gender diversity initiatives have been shown to improve corporate performance.

Controlling for these kinds of hidden influences requires investors to consistently and deliberately assess the gender dynamics of their investment process. Dr. Iris Bohnet, Professor at Harvard University and author of the compelling book, "What Works: Gender Equality by Design," offers thirty-six research-grounded actions to reduce unconscious gender bias. For example, to maximize investment team performance, "make sure every subgroup [such as women] is represented by at least three people or makes up about a third of the total"[23] in order to "seize the benefits of diversity."[24] Investors may also consider standardizing certain elements of their investment due diligence process to ensure every investment opportunity is judged on the same basis of fact.

Investment Analysis

Once investors are confident their own investment processes are robust enough to both detect and manage bias, they can next turn to assessing the gender-related attributes of the investments themselves. The UN has again provided critical guidance. In 2010, the UN consolidated its various empowerment strategies into a new entity, UN Women, which is tasked with promoting women's empowerment across the globe. Among UN Women's first actions was to collaborate with the UN Global Compact to develop the Women's Empowerment Principles (WEPs). The seven WEPs, adapted from Calvert Investment's Women's Principles and detailed below, set the standard for gender equality and women's empowerment in the private sector.

- Principle 1: Establish high-level corporate leadership for gender equality
- Principle 2: Treat all women and men fairly at work – respect and support human rights and nondiscrimination
- Principle 3: Ensure the health, safety and well-being of all women and men workers
- Principle 4: Promote education, training and professional development for women
- Principle 5: Implement enterprise development, supply chain and marketing practices that empower women
- Principle 6: Promote equality through community initiatives and advocacy
- Principle 7: Measure and publicly report on progress to achieve gender equality[25]

The WEPs provide valuable guidance for investors as they build their portfolios. The principles provide a benchmark against which both asset managers and the companies in which they invest can be assessed. Just as investors might change their view of a company's value based on the durability of its profit margins, they may also adjust their analysis based on the extent to which its business practices align with these principles. Companies that treat women and men fairly at work, for instance, may be more likely than their peers to attract and retain the talent needed to support their growth. Those with gender-related problems in their supply chain, such as forced labor, may be susceptible to value-destroying scandals.

An increasing number of institutional investors are integrating these kinds of considerations into their investment processes. Both the New York City Retirement System and APG, two of the world's largest pension funds, have added sections to their due diligence questionnaires about gender.[26] In fact, gender analysis is consistent with the broader practice of environmental, social, and governance (ESG) investing, which embraces the idea that non-financial factors can often have a material influence on company or investment performance.

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Asset managers have also crafted a number of investment strategies designed to target companies that exhibit positive gender-related characteristics. The Pax Ellevate Global Women's Index Fund, launched in 1993 as the Women's Equity Fund, was "the first broadly diversified mutual fund [to invest] in the highest-rated companies in the world for advancing women through gender diversity on their boards and in executive management."[27] A number of similar strategies have since followed, including the Glenmede Women's Leadership Fund, the BMO Women in Leadership Fund, and State Street Global Advisor's SSGA Gender Diversity Index ETF. Among the most sophisticated strategies is the Women's Inclusion Strategy available from separately managed account provider Aperio Group. The firm uses optimization techniques to tilt an investor's selected index, such as the S&P 500, towards companies with positive gender-related characteristics, while controlling risk.[28]

Though fewer in number, gender-focused strategies are also available in the fixed income markets. Community Capital Management, for instance, offers fixed income funds that include a gender lens component. In one of its strategies, the firm invests in customized mortgage pools providing capital exclusively to low- and moderate-income women borrowers.[29]

Exhibit 1: Women's Inclusion Strategy

The Aperio Women's Inclusion (AWI) strategy is a public markets investment opportunity which uses a gender lens. Investors can use the strategy to track one of four broad-based equity indices (S&P 500, MSCI AWCI, MSCI EAFE, and Russell 3000). Aperio seeks to match the beta, or risk level, of the relevant index while increasing the "social score" of the overall portfolio. The AWI scoring strategy uses what is commonly referred to as a "best in class" ESG methodology to apply weights to the underlying companies in order to improve the portfolio characteristics in regards to gender issues.

The strategy emphasizes companies that score well in the following criteria (relative to the peer universe):

- Companies with more women on their board
- Percent and voluntary disclosure of women in senior management
- Equal opportunity
- Protection of rights
- Signatories to Women's Empowerment Principles and the Global Business Coalition Against Trafficking

And the strategy excludes companies that:

- Have no women on their boards and have no female executives
- Have greater than 10% of revenue derived from adult entertainment

Microsoft is an example of a company that scores well in the AWI strategy, primarily due to the company being a signatory of global gender initiatives as well as Microsoft's good workforce gender ratio relative to peers. ExxonMobil is an example of a company that is currently excluded from the AWI strategy due to having zero female executives.

The AWI strategy also engages in shareholder activism by utilizing proxy voting on a range of gender initiatives. Aperio votes according to ISS's (Institutional Shareholder Services) Socially Responsible Investment Proxy Voting Guidelines. Examples of proxy voting topics within the initiative of Equal Pay & Positions in Leadership that Aperio voted on in 2016 include (i) Gender Pay Gap, (ii) Improve Human Rights Standards or Policies, and (iii) Prepare Employment Diversity Report and Report on Diversity Policies.

Source: "Women's Inclusion Strategy," (Investor presentation, Aperio Group, 2017)

Gender Inclusive Strategies

The Criterion Institute, a leading research institution focused on the intersection of gender and finance, describes gender lens investing as a "process standard."[30] Given the pervasiveness of gender bias, they would argue that the assessment of financial risk and return is incomplete without conducting some level of gender analysis. However, the process of gender lens investing is about more than improving portfolio performance; it is rooted in the broader effort to combat harmful gender biases and promote gender equality.

As the field has evolved, those broader goals have inspired a number of more outcome-oriented investment strategies that meet the Global Impact Investing Network's definition of impact investing: "investments made . . .with the intention to generate social and environmental impact alongside a financial return."[31] In a landmark 2015 report on the "State of the Field," the Criterion Institute noted that investors focused on gender equality and women's empowerment have tended to organize around three specific objectives: workplace equity, access to capital, and products and services that "directly improve the well-being of women and girls."[32] Athena refers to these strategies as "gender inclusive" investments to reflect their focus on outcomes, as opposed to process.

Workplace Equity

In the public markets, many investors not only invest in companies with positive gender-related attributes, but they also use their shareholdings to affect change. Investment managers such as Trillium Asset Management, Walden Asset Management, and Boston Common Asset Management employ staff dedicated to shareholder engagement. Backed by the holdings of the managers' various investment funds, these advocacy professionals engage with corporate leaders across sectors and geographies to encourage the adoption of gender inclusive policies. Some companies respond constructively, others resist pressure to change. In those cases, staff may file a shareholder resolution, giving them the opportunity to plead their case to the entire shareholder base.

A common area of engagement relates to corporate disclosures of EEO-1 workforce diversity data, which contains information about the racial, ethnic, and gender diversity of a company's employees.[33] In 2017, Trillium Asset Management filed a resolution with The PNC Financial Services Group calling on the company to "prepare a diversity report…available to investors including…a chart identifying employees according to gender and race in major EEOC-defined job categories, listing numbers or percentages in each category."[34] In addition to establishing an expectation of transparency, engagement efforts like this one make companies and their employees aware that investors care about the effect gender diversity has on corporate performance.

Access to Capital

Terms like "gender lens" or "gender inclusive" may be relatively new to Wall Street, but gender has long been at the center of efforts to improve access to capital around the world. As far back as the early 1800s, loan funds established in Ireland to support the "industrious poor" served a surprisingly high number of women.[35] In the modern era, Dr. Muhammad Yunus and Grameen Bank were awarded the Nobel Peace Prize in 2006 for their work in the 1970s to provide microcredit to the rural poor in Bangladesh. The Nobel Committee, in presenting the award, cited that Dr. Yunus' "emphasis on women" translated into a social revolution in the country that wouldn't have been nearly as impactful otherwise.[36]

Despite years of effort, gender remains a key determinant in an individual's or business' ability to access capital. The International Finance Corporation, a member of the World Bank Group, has estimated that between 63% and 69% of women-owned small and medium enterprises (SMEs) in developing economies are either unserved or underserved by financial institutions. This equates to a credit gap as high as $320 billion.[37] Women face similar disparities in the US. According to a Babson College study, between 2011 and 2013 just 15% of the companies that received venture capital funding had a women on their executive team. An even smaller portion, just 3%, had a female CEO.[38]

Gender inclusive investment strategies focused on improving women's access to capital are available in a variety of forms. Some investors choose to address the problem in the most direct way possible by making "angel" investments backing women entrepreneurs. Investors can also place capital with managers that focus on funding women-led businesses. Patamar Capital runs a fund and accelerator for women-backed companies in Southeast Asia and is an example of a fund that might appeal to investors focused on emerging markets.[39] By contrast, True Wealth Ventures pursues market-rate, risk-adjusted returns by investing in US-based, women-led startups. Golden Seeds is another US-based investor that provides seed and early stage capital to female entrepreneurs.

However, the end-users of capital are not the only ones that struggle with gender bias. Women are significantly underrepresented, not just in the hedge fund industry as noted earlier, but across the field of asset management. Only 20% of mutual funds employ a female portfolio manager[40] and despite the fact that a 2017 study found that a third of female-led private equity and real estate funds generate top quartile performance, less than 2% of private equity firms are women-owned.[41]

Channeling capital to women-led investment teams is itself a gender inclusive strategy that directly and indirectly promotes gender equality. Female fund managers not only serve as role models, they also play an important role in connecting female entrepreneurs to capital. In a 2010 whitepaper, Cindy Padnos, founder of venture capital firm, Illuminate Ventures, argues that "increasing the number of women investors offers a much-higher impact approach to expanding funding of women-led businesses than may have been previously understood."[42] She notes that venture capitalists will rarely consider an investment opportunity unless it comes through a personal connection. The gendered nature of business networks in Silicon Valley has been well-documented and is a key reason, Padnos concludes, that female entrepreneurs struggle to raise capital.[43]

Thus increasing the number of female venture capitalists is a critical intervention. Data from Babson College's Diana Project confirms that "venture capital firms with women partners are three times more likely to invest in companies with women CEOs."[44]

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Illuminate Ventures was not founded with a social mandate, yet it is an example of an opportunity to support an experienced female investor in a field dominated by men. Athena Capital Advisors works with one client, for instance, who is seeking to improve the gender imbalance in finance as one of her overriding social goals. Her experience is outlined in the case study found on page 12.

Products and Services

The focus on products and services stems, in part, from the previous two issues of access to capital and workplace equity. Without female-led innovation as well as adequate representation of women at the helm of companies, the needs of women can be misunderstood and even ignored. Businesses that focus on the nuanced needs of women alongside those of men contribute to efforts to promote women's empowerment and gender equality.

Investors focusing on products and services designed for women often look to emphasize a particular category, such as women's health or financial services. Others may simply recognize an opportunity stemming from the fact that women control most of the spending in the US, yet remain vastly underserved across many markets.[45]

Regardless, we find that this theme is most vulnerable to gender investing's version of green-washing if the quality of the outcomes is not considered.For example, the difference between the impact of finding more effective medicine for diseases affecting women and the impact of designing more fashionable shoes for women is vast. The former is much more connected to the desired outcome of gender equality.

Lastly, products that are gender neutral, such as cell phones, can be tremendous enablers of women's empowerment. For example in developing markets, the availability of cell phones to access digital financial markets, has the potential to lift millions of women and their families out of poverty.[46]

Crafting Portfolios

Creating the Guideposts of an Investment Policy Statement (IPS)

Building an investment portfolio that embraces the principles of gender lens investing and incorporates gender inclusive strategies requires a thoughtful approach that begins with the drafting of an Investment Policy Statement (IPS). The IPS should address all of the traditional goals and considerations that would guide the creation of any portfolio, including return requirements, risk tolerance, liquidity needs, time horizon, and tax sensitivities. But it is also a document investors should use to explore how deeply to integrate the principles of gender lens investing into their portfolio and how far they wish to pursue gender inclusive strategies.

The following questions are useful in exploring the issues to be addressed in the IPS:

1. **Return:** Does the investor seek to outperform the return of traditional strategies by using a gender lens? Does the investor seek competitive returns on all investments or is the investor willing to sacrifice financial return in order to meet their gender-related objectives?

2. **Risk:** Is the field-building process of funding developing teams and growing the field a priority? Is the investor willing to take on extra financial risk to be a catalyst, such as investing with new or untested strategies?

3. **Focus:** Does the investor care more about products or services, access to capital, or workplace equity, or all of the above? The frameworks provided by the UN WEPs and the SDGs may help here.

4. **Geography:** Is the investor focused on generating impact domestically or internationally?

5. **Connection:** How important is learning and sharing about your gender-focused investment experiences with like-minded peers? Are you willing to compromise on your investment criteria in order to invest with a network or circle of peers?

6. **Flexibility:** If necessary, is the investor willing to change his or her optimal asset allocation to hold more illiquid investments, in order to invest in impactful, outcome-focused private deals?

7. **Exclusions:** Are there any issue areas, like pornography, that the investor wants to completely exclude from the portfolio? Investors may also seek to restrict investments in companies operating in countries that do not protect the rights of women, or in corporations whose supply-chain practices overlook exploitive conditions.

The IPS is designed to be a living document open to periodic review. Not only is it likely that an investor's goals will evolve over time, but also the marketplace is maturing rapidly, with new strategies emerging every year.

Implementation through Iteration

Integrating gender into an investment portfolio is often most successfully achieved through iteration. Investors may not initially have answers to all of the questions that come up during the process of drafting the IPS, but will discover their preferences in reaction to specific investments. Investors who initially expressed a willingness to take on more risk in order to generate more impact, may discover their tolerance for volatility is limited. Others, who may have been skeptical that gender lens investments could generate market-rate returns, may be surprised to see those investments do well.

The most important step is to just begin, and depending on the existing portfolio circumstances and the investor's goals there are generally two initial approaches to the integration of gender-related investments into a portfolio. Investors may opportunistically select a few gender-related investments across their portfolio, which we refer to as "feathering-in," or they may "carve-out" a portion of their portfolio as a dedicated gender investment strategy.

Feathering-In

Feathering-in is the process of opportunistically replacing existing, traditional investment strategies with new strategies that better reflect the investor's approach to gender analysis, or which are more likely to achieve the investor's gender-related objectives. Investors may wish to replace management teams that lack gender diversity with those that are balanced, or find strategies that intentionally integrate gender into their investment process.

For many investors, public equities and public fixed income funds are attractive starting points. These funds are highly-regulated and typically have clearly-defined risk, return, and social impact objectives. They also typically offer daily liquidity, in contrast to the long-term lockups that can make private investments a difficult proposition for many investors. Public equity and public fixed income funds generally target market-rate returns, so they are more easily integrated into a portfolio than strategies with more ambiguous objectives. Finally, a number of managers combine gender-focused investment strategies with shareholder engagement efforts, offering investors a relatively easy way to enhance their impact.

However, the size of the public markets often means that the connection between the capital deployed and the objectives sought can often be hard to isolate. Private investments bring the investor closer to the ultimate recipients of capital and may offer greater insight into the ultimate impact of their investment. Investors often find that meeting or reading about specific women whose lives have been improved as a result of their investment is a powerful source of validation.

Feathering gender-related strategies into an investment portfolio is an effective means of learning from experience without taking on too much risk. It leaves the investor with a better understanding of their own preferences and may help them identify specific gender-related themes to target.

Carve-Outs

Instead of feathering-in strategies throughout an investment portfolio, investors may wish to consider devoting a small percentage of their assets to the pursuit of gender-related strategies. Creating a "carve-out," or "sleeve" as it is sometimes called, is a strategy some foundations have used to implement an impact investing program within their broader endowment. The Surdna Foundation and the Cal Wellness Foundation have created carve-outs that replicate the asset allocation of the main portfolio, while the McKnight Foundation and the Rockefeller Brothers Fund have carve-outs with more tailored objectives than the main portfolio.

In practice, carve-outs are most often used to house illiquid investments such as angel investments or commitments to private equity and venture capital funds. Their investment mandate can be outlined in the IPS of the main portfolio or they can be given an IPS of their own. Carve-outs can also be managed by a separate investment advisor if, for instance, the investor determines the team managing the core portfolio lacks impact investing expertise.

Generally, the appeal of a carve-out is that it allows investors to pursue specific financial or impact objectives separate from those of the main portfolio. In that regard they are particularly useful to those investors willing and able to accept below-market returns in order to enhance their impact. However, even when financial return is a priority, it may be helpful to segregate gender inclusive investment strategies. The risk and return characteristics of these investments may differ from traditional benchmarks and the investors may learn more about their gender inclusive strategies through using a "carve-out."

Building a Fully-Aligned Portfolio

As investors gain experience with gender lens investing and explore the opportunities available among gender inclusive strategies, many may be inclined to extend their efforts to the entire investment portfolio. Their ability to do so will depend on a variety of factors, some of which may not be entirely within their control.

For those investors focused on integrating gender analysis into their own investment processes, a fully-aligned portfolio may simply be one that has been constructed with a gender lens. Achieving this result is primarily a function of their own planning, training, and execution.

A common thread through all impact portfolio approaches is the need to iterate: invest, learn, be introspective, revisit the strategy as needed, and invest again.

For those focused on generating specific outcomes, their success will depend both on the nature of their objectives and the opportunities presented by the market. The number of opportunities to invest in each of the three types of gender inclusive strategies is growing. However, investors will have greater success achieving 100% alignment if they keep their mandate broad. For instance, investors focused solely on backing female asset managers may find their efforts impeded by the limited opportunity set. Building a fully-aligned portfolio might require concentrating their capital in the hands of a smaller number of investment managers or fewer asset classes than they might otherwise. A broader mandate might acknowledge the reality that when only 3%-5% of investments in a certain industry or asset class are run by women, the best opportunities may be found by expanding the universe to include funds or companies with gender diverse or male-dominated teams.

A common thread through all impact portfolio approaches is the need to iterate: invest, learn, be introspective, revisit the strategy as needed, and invest again. In transitioning from identifying one-off investments to building a gender lens portfolio, investors should revisit their IPS to assess and potentially refine their desired outcomes. This backward-looking "feedback" process requires that investors carefully assess the impact their portfolio has achieved, how those impacts align with their objectives, and use that assessment to inform new commitments.

Measurement

The measures investors use to track their progress in achieving their gender-related objectives can range from simple to complex. Basic metrics might include the number of female portfolio managers managing portfolio assets or the number of strategies that integrate gender analysis into their investment processes. To the extent data is available, investors can also look to the gender-related characteristics of the underlying holdings in their separately-managed accounts and mutual funds. MSCI and Sustainalytics, among other ESG research organizations, track diversity data but investors can also find information from non-profit groups such as 2020 Women on Boards, which maintains a "Gender Diversity Directory" with information about the board composition of 1,749 companies.[47]

Gender inclusive strategies that target specific gender-related outcomes often pose the most difficult measurement challenges. In its "State of the Field" report, the Criterion Institute laments the impact investing industry's emphasis on "counting women," calling for the field to develop metrics that instead "value gender."[48] The need for better data is not unique to gender inclusive strategies, but is a challenge facing the entire impact investing community.

Until more meaningful metrics are developed, investors can enhance the value of "counting women" with planning and forethought. Before making a gender inclusive investment, investors should outline their theory of change and make a logical connection between the capital they intend to deploy and the outcomes they seek to achieve. Doing so will provide important context for the quantitative data they ultimately collect.

Qualitative data is just as critical. The number of female borrowers in a microfinance portfolio, for instance, is a useful but dry statistic. Client profiles that explore the ways in which those female borrowers have used their loan proceeds may not prove cause-and-effect, but they will help bring the data to life.

Conclusion

While the statistics are improving, much progress remains to be made in the pursuit of gender equality. Beyond advancing the primary social causes targeted with a gender lens, the current imbalance in gender equality presents a compelling opportunity for gender investors as a growing collection of evidence supports both the financial and social values of applying a gender lens to investment analysis.

Today, a gender lens can analyze an evolving landscape of opportunities across the asset class spectrum and across the themes of access to capital, workplace equity, and products and services for women. Investors may also place capital with a growing list of women-owned and women-led funds as a means to targeting a variety of gender themes, in particular workplace equity and access to capital. We explore this particular gender lens investing mandate in the case study that follows.

Case Study: Building an Aligned Portfolio

A new client seeking to build-out a gender lens portfolio engaged with Athena in 2013. She is committed to women's empowerment and keenly aware of the related social issues. She came to Athena Capital Advisors informed of some of the research showing investing in women can not only have positive societal impacts, but also financial benefits. She had already made a few gender lens investments in her portfolio. In her process of interviewing women advisors, she selected a female team at Athena Capital to work with her on building a gender lens portfolio.

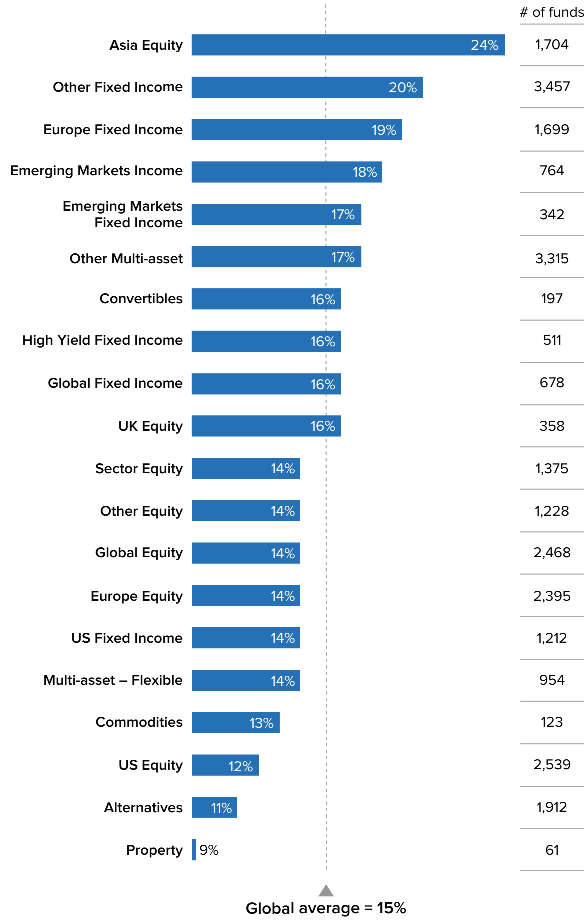
In the conversation with the client leading to the drafting of her IPS, she identified herself as a financial-first investor seeking market-rate returns. However, she also wanted to be supportive of women investment teams, including less-experienced emerging managers. Consistent with the first of the U.N.'s Women's Empowerment Principles[49], her theory of change was that providing female asset managers the opportunity to deliver above-market returns would yield a powerful demonstration effect.Through her investments, she also sought to give women investors a more powerful voice in setting the priorities of corporate America.

When she came to Athena, 95% of her portfolio, including all public markets investments, was invested without gender lens considerations. The remaining 5% of the portfolio was invested with four female-led investments, two hedge funds and two venture capital investments. She was looking to transition to the next phase of portfolio alignment in partnership with Athena Capital. As previously described, building a fully aligned portfolio is an iterative process where the client and advisor define the objectives more clearly over time.

Following a landscape review early in the process of working with her, we added two female managers, one in public equities and one in a credit hedge fund. Both sought market-rate investments. Each position was about 2% of the portfolio, so in a short time we nearly doubled the exposure to women managers. In the case of the equity manager, we introduced an element of proxy voting and shareholder engagement favorable to women's leadership, also led by a female fund manager.

Next, as we evaluated the full opportunity set, one of the conundrums that we uncovered was that despite the literature that women hedge fund managers outperform men, there is the caveat of "all things being equal." In reality, women tend to run funds, such as mutual funds or hedge funds, that are smaller and less-proven on average than men.[50] While it is an important goal to develop new talent, and provide for new women role models in finance, we uncovered the hidden risk of investing in promising but unproven teams. After less-than-optimal experiences with the performance of her female emerging hedge fund managers, the client decided to change strategy and to apply the same financial lens to both female-led and gender-diverse investment teams. The revised mandate was to scour the landscape for female teams that exceeded our market-rate bar for financial risk-adjusted return – including start-up risk and related operational risk factors. We exited the sub-scale female-led hedge funds, and found a strong team in Bracebridge, run by Nancy Zimmerman and Gabe Sunshine. The performance over the past five years has been far in excess of its benchmark. This was exactly the kind of gem we were looking for!

EXHIBIT 2: FEMALE REPRESENTATION BY ASSET CLASS



Source: Morningstar data, Oliver Wyman analysis

With this new approach, as we found market-rate, competitive female managers, we transitioned the portfolio. Another valuable addition was Aperio's Women's Inclusion (AWI) strategy, which we invested in less than a year after it was launched. They seek to support companies where women have a large presence in senior roles and could benefit other women in the corporation through a trickle-down effect of better pay and benefits, as well as serving as role models. This separately managed account platform tracks US public equity indexes and over-weights companies with more women on their boards or in senior management[51] (see Exhibit 1).

Interestingly, the back story of the AWI strategy is that it was conceived at the request of a woman who had been an organic farmer and then became steward of her family's wealth. She wanted to take the same approach to investing that she used in farming – to invest in accordance with her values, making it sustainable while making a profit. She wanted the AWI strategy to be a flagship vehicle that other investors could use to align their gender inclusive values with their investments. Indeed, this investor has been a leader and exemplifies, by her proactive initiation of the AWI strategy, how women acting in accordance with their values, can make a difference in finance.

Next, to further develop our client's gender inclusion portfolio, we invested in Accolade Partners, a venture capital and growth equity fund-of-funds founded by Joelle Kayden, and MB Global Partners, a special situations fund founded by Maria Boyazny. These additions let us further allocate to institutional-quality female-led teams across asset classes. We are currently up to approximately 50% of her portfolio invested in gender inclusive investment strategies.

The biggest challenge in further increasing our client's portfolio allocation to female managers relates to sourcing, as many of the more esoteric asset classes – such as those trading in inflation-protected securities – do not offer alternatives aligned with the client's social goals. Even the more traditional asset classes remain under-represented as it relates to gender, which can create challenges for more traditional exposures such as commodities (see Exhibit 2).[52]

Therefore, the very problem the client's capital is seeking to change begets the lack of opportunities: women entrepreneurs are only 3% of the CEOs of venture-backed companies and women manage only 20% of mutual funds.[53] In certain parts of the portfolio, in order to get a competitive product or return, it is sometimes necessary to fall back on male-lead teams, at least temporarily.

After four years of experience managing the client's portfolio with a gender inclusion perspective, the portfolio is invested in firms with senior female investment leaders, strategies that invest in companies with positive gender goals, and firms looking to advance those goals through shareholder advocacy. We believe, and the research has shown, that these goals should translate to positive performance in the long run. The client's Athena Capital-managed portfolio performance is measured relative to market-rate benchmarks and has been competitive over the four-year period. A longer time frame over different market cycles will be the best environment to prove that gender-focused goals lead to a financial advantage. Our goal going forward is to continue to build the track record and to find more female managers, to demonstrate the academic research in real time, and to showcase the expertise of female managers.

We and our client are committed to building a market-rate portfolio with as high a proportion of female managers as possible, as quickly as possible. She wants her portfolio overall to be an example of how women can invest in other women, and create change in the world. Our client is truly leading the industry by her example.

Lisette Cooper, CFA, PhD

Managing Partner, Chief Investment Officer

Lisette founded Athena Capital Advisors in 1993. Today, she serves as Chief Investment Officer and Managing Partner. In these roles, she sets the firm's overall direction and leads the Investment Committee.

Athena Capital serves as its clients' external chief investment officer and investment research team, offering investment advisory and management, wealth planning, and investment administration and reporting services. Athena Capital is a pioneer in impact investing, spanning all major asset classes and values-based strategies.

Lisette has appeared many times on national television and has been widely quoted in news media. She is a Chartered Financial Analyst, an Alumni Council Member at the Harvard Graduate School of Arts and Sciences, a Member of the Board of Garrison Institute, and a Fellow and Board Member at the Mind & Life Institute. She also served as an Expert in Residence at the Harvard Innovation Lab. In 2017, Lisette was honored as a "Women to Watch" by InvestmentNews.

Lisette received a PhD from Harvard University and Bachelor's Degree from Wesleyan University.

Jeff Finkelman, CFA

Research Associate, Impact Investments

Jeff is a member of Athena Capital Advisors' research team and focuses on socially-responsible, ESG, and impact investing across asset classes.

Prior to joining Athena, Jeff was an Investment Officer with the Office of Investment and Innovation at the U.S. Small Business Administration. Jeff's primary responsibility involved reviewing and completing due diligence on private equity funds for the Small Business Investment Company (SBIC) program, a public-private investment fund. During his time in government, Jeff also helped draft the investment policy governing SBA's Impact Investment Fund and spent six months as a Presidential Management Fellow with the Office of African Nations at the U.S. Department of the Treasury. Previously, Jeff served as a Girls Education and Empowerment Volunteer with the United States Peace Corps in Togo, West Africa.

Jeff received a Master of Arts in International Finance and Development from Johns Hopkins School of Advanced International Studies and a Bachelor of Arts in International Relations from Tufts University.

Kate Huntington

Managing Director, Research

As Managing Director, Kate focuses on private equity and private real estate investments and is co-head of Athena' Capital Advisors' research and manager selection team.

Kate previously worked as a Consulting Associate at Cambridge Associates where she supported consultants in managing, advising on, and reporting on a variety of institutional clients' investment portfolios. Kate started her career as a Research Analyst at Stonebridge Associates, a real estate investment and advisory firm, and then transitioned to economic consulting with both Capital Economics and LECG, where she was an Economist/ Consultant providing economic analysis and market research to support high-profile anti-trust litigation. She has also worked in the global equity research group at Fiduciary Trust.

Kate recieved a Master of Business Administration from Yale School of Management and a Bachelor of Arts in Economics from University of Virginia.

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